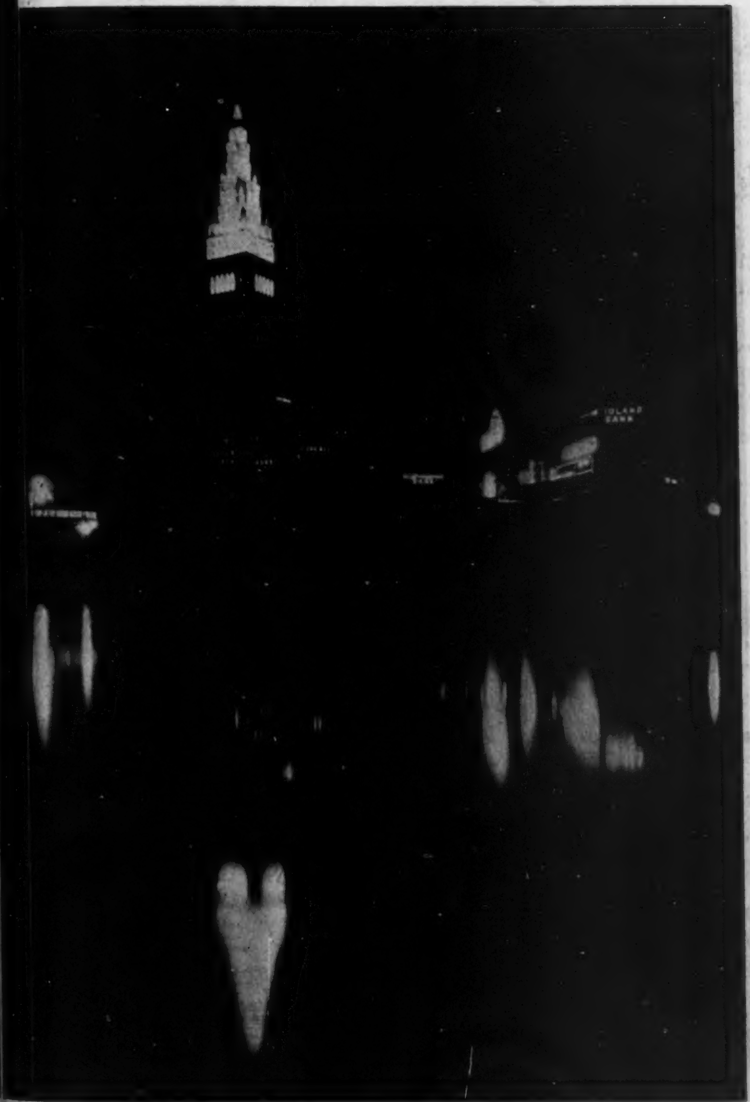
The National Magazine of Business Fundamentals

CREDIT MONTHLY

Vol. 32, No. 10



OCTOBER, 1930

When writing to Wilson-Jones please mention Credit Monthly.

CREDIT MONTHLY

The National Magazine of Business Fundamentals

CONTENTS FOR OCTOBER, 1930

Looking Ahead

In November, William P. Bolles, General Credit Manager, Holcomb & Hoke, Indianapolis, will contribute the first article in the series of descriptions of Gold Star Credit Departments. Each month an exemplary credit department will be described by its head.

A series of articles by presidents of insurance companies will also begin in November. These articles will bring out the close relationship between insurance and credit.

"How Advertising Increases Credit Standing" will be the subject of an article by E. E. Hill, Treasurer, H. K. McCann Company.

There will be a third article in the series of Pioneers in American Business and Industry. Captain Robert Dollar and Julius Rosenwald have been the subjects of the first two articles.

The analysis articles by Mr. Alexander Wall and Mr. John Stevenson will be continued in the November number.

CHESTER H. McCALL, Editor and Business Manager

Clifford T. Rogers, *Advertising Manager* — Simpson-Reilly, *Pacific Coast Representatives* — Philip J. Gray, *Western Advertising Manager*

CREDIT MONTHLY Oct., 1930

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Vol. XXXII No. 10

EVENT AND COMMENT

Business Sportsmanship

BUSINESS NEEDS more sportsmanship. There are times when competition between individuals in business is as unsportsmanlike as some of the pugilistic fouls that elicit a roar of booing and razzing from fight fans. There is only one difference between competitive fouls in business and competitive fouls in prizefighting—there is a referee or judge who sees and calls the fouls in boxing. Physical fouls are not so injurious as those underhanded, back-slapping blows that are leveled at a man's character, reputation and ability.

There are people who look askance at professional sports as a somewhat tainted form of competition. But professionalism probably offers more examples of downright fairplay and sportsmanship than either amateur sports or business competition. From professional baseball we get a particularly inspiring example of sportmanship and loyalty. The mighty Babe Ruth is getting along in years and is being pressed closely for records and honors by young Lou Gehrig. Ruth, from the first, has taken Gehrig under his wing and has been exerting every effort to develop Gehrig into a greater hitter than even himself. Ruth seems to have no qualms about helping to dethrone himself. What Babe Ruth is and all that he may be depends upon his holding the title of homerun king. And Gehrig has come through just as finely and is one of Ruth's greatest admirers, supporters and friends.

Consider a similar situation in business. A man in a responsible position takes some one under his wing as a possible successor when he passes out of the picture. There are exceptions but generally the man who knows he is being groomed for a better position will do everything he can, while endeavoring to protect himself, to get the man above him disliked, in bad graces or entirely out of the picture. This foul, subtle undermining of men is one of the rotten spots in business competition. The chief executive of a Detroit automobile manufacturer decided that it was an extremely wise policy to have an up-and-coming understudy for every official in the business. Within a year's time the company was entangled in a web of petty lies, politics and inefficiency. To settle the situation he had to use the axe on half of the officials of the company—and fortunately he was able in most cases to cut off the guilty offenders.

It is regrettable that business competition cannot have a referee who can see and call foul competitive blows. Business is too overburdened with whisperers—those individuals who compliment a man to his face and five minutes later knock him behind his back, with men who underhandedly strive to weaken the loyalty of another's subordinates or co-workers, with the sponge type of men who absorb ideas, suggestions and plans of others and then publish them to the world as a personal achievement and attainment. If one half the time that is wasted in this unethical and unsound competitive friction were devoted to constructive work business would have fewer problems that contribute to and cause fluctuations and recessions.

Unhappy Endings

THE DOCTOR must get his degree, serve as an interne and meet government requirements before he can practice as a doctor; the lawyer must master the theory and practice of law and pass a state examination before he is admitted to the bar; the certified public accountant must devote years to the study and practice of accounting and pass the C. P. A. examination before he can hold his responsible position—but any man may enter business if he has capital or credit enough to launch the venture, *irrespective of his ability or qualifications.* Few factors have imposed such a heavy economic burden upon our country as *promiscuity in the launching of new business enterprises.*

The average life of the business enterprise in this country is a little over seven years. Over eighty per cent. of these expiring businesses are failures that bring heavy losses to creditors. A sound business is cumulative. It contributes a growing efficiency, confidence and utility to the economic system. The majority of enterprises that fail start slipping almost as soon as they are organized. So in addition to the actual monetary loss there is a constant, undermining drain caused by non-cumulative negative factors attending the gradually and almost imperceptibly failing business. And at the end of the long downgrade movement is the bog in which is propped this sign: CREDITORS GET FIFTY CENTS ON THE DOLLAR.

Numerous reasons are assigned for these dying enterprises—lack of adequate capital or poor capitalization, poor management, fradulent practices, improper administration of credits and many others. What is the solution? Certainly the mortality would be greatly lessened if the man, or men, intending to organize a new enterprise were required to appear before an examining board or business jury and establish the right to enter business. It is not an unreasonable conjecture that business mortality would soon be cut in half. The establishment of a nation wide system of such examining boards would not be a difficult task. Neither would it be difficult to formulate a set of requirements which the business man would have to meet. Reasons why some enterprises fail when others of the same type succeed are easily isolated. It is the simple fundamentals of business success that are flagrantly violated. While the creation of a nation wide system of business examination boards is in the future—it is not in the far distant future, for promiscuity in the launching of new business enterprises is rapidly making a system of this kind a necessity. Write to CREDIT MONTHLY and give your ideas and opinions on this subject. Give any arguments you may think of both for and against. The expression of opinions is always the germ from which active, constructive and forceful movements and programs develop. You cannot be certain what cumulative effects may result from the expression of enough forceful opinions on this subject. Start the ball rolling. Send in your ideas on the subject — and CREDIT MONTHLY will follow through.

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Springboards of Success

IN THE cemetery of executive and administrative mistakes you will find graven on scores of tombstones: "I thought he could because he thought he could." People have always been religious in their belief of the maxim "You can if you think you can." The Bible has told us that faith will move mountains. "Will to do and it will be done"—is another tenet of success that is often quoted and illuminated as a sure way to success. While these maxims and tenets are basically sound they are misleading and are as much the root of failure as they are the root of success.

Men do not succeed or do a job because they want to or because they think they can. Such beliefs are merely springboards from which they must leap. An accomplished fancy diver and a man who cannot dive at all may both walk out and stand on the end of a high springboard. But only the diver can really make the dive. You don't think a man is a diver because you see him standing on the edge of the springboard. He has to make the dive before you are convinced. Many people early learn the psychological value of standing on the edge of the springboard. And quite strangely they are taken for high divers because they stand on the springboard.

How often you hear someone say, "I'll tackle almost any kind of a job and do it because I think I can." A man's qualifications for doing a job so often rest in his belief that he can do the job rather than upon actual abilities or accomplishments. Wanting to do something, thinking one can do it and telling others about what one thinks one can do are altogether different from *actually doing it*. "I think I can" and "I want to" are merely springboards from which men may leap. And they are also springboards upon which far more standing is done than diving is done. That is why you will find graven upon so many tombstones in the cemetery of executive and administrative mistakes these words: "I thought he could because he thought he could."

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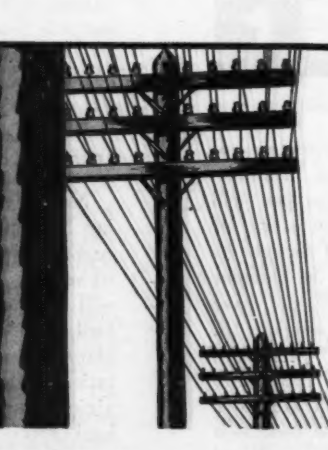
Bankruptcy Progress

CREDIT MONTHLY has assumed a significant responsibility in relation to the government bankruptcy investigation now being conducted by the Office of the Attorney-General of the United States. Solicitor-General Thacher in a recent letter to CREDIT MONTHLY said, "CREDIT MONTHLY's efforts in support of the investigation and study of our bankruptcy system will be of the greatest assistance." The Solicitor-General then went on to state the "ways and means" by which CREDIT MONTHLY could be "of the greatest assistance".

Not only will CREDIT MONTHLY serve as a clearing house for ideas and developments in the bankruptcy investigation as they affect the interest of its readers. Specific co-operation along various lines will also be given. A case in point: Samuel M. Dell, President of Samuel M. Dell & Co., Baltimore, Maryland, as a result of CREDIT MONTHLY's presentation of bankruptcy developments wrote a letter, giving an outline of his company's experience in bankruptcy cases and listing a particular case that seemed to warrant investigation. This information has proved to be of value and has been referred to the proper authorities for consideration and analysis. We are also in close touch with Mr. Lloyd Garrison, Special Assistant to the Attorney-General, who is in active charge of the investigation. You may clear through CREDIT MONTHLY any ideas, plans, or developments you may have in mind. Any pertinent information you send in will be "put into the works" immediately.

Speeding Inquiries . . . Flashing Replies

over wires that criss-cross a continent



WHETHER you're getting information or giving it, utmost speed is essential today. Speed with accuracy.

And in meeting competition through swift communication with clearing house, branch office or reference, you want a permanent, printed record of every question and answer—every report—every agreement.

Daily across the vast network of Postal Telegraph wires flash increasing thousands of credit messages that reach their destinations speedily and leave an accurate record for future reference that safeguards against misunderstanding.

Postal Telegraph reaches 70,000 points in the United States—8,000 in Canada.

Courteous, alert messengers... accurate, efficient service . . . highly trained operators . . . a sense of responsibility made evident in every transaction . . . these are some of the reasons business men are turning to Postal Telegraph service.

The only American telegraph company offering a world-wide service of coördinated record communications

Postal Telegraph, through affiliation in the International System, goes to Europe, Asia, the Orient over *Commercial Cables;* the West Indies, Central and South America over *All America Cables;* ships at sea via *Mackay Radio.* The only American telegraph company offering a world-wide service of coördinated record communications.

Postal Telegraph

COMMERCIAL CABLES

ALL AMERICA CABLES

MACKAY RADIO

When acknowledging good Postal Service please mention Credit Monthly.

A Billion Dollar Credit Responsibility

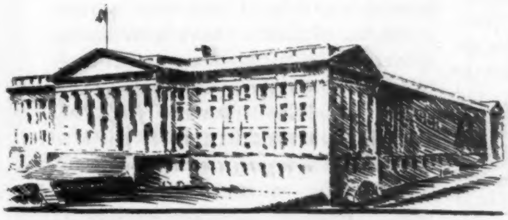
BY WILLIAM FRASER

President, National Association of Credit Men

Compare these figures with one billion dollar bad debt and credit waste

Estimated value of entire wheat crop, (U.S.A.) for 1930	$758,829,100
" " " " oat " " " "	611,527,200
* " " " annual production, tobacco products	1,163,768,000
* " " " " " rubber products	1,225,077,000
* " " " " " leather products	1,868,320,000
* " " " " " stone, clay & glass products	1,612,549,000
Gross reduction of public debt in 1929	1,008,700,000
Net operating income of railroads in 1929	1,274,774,000

(Note: *=latest available estimates of National Industrial Conference Board.)



Annual reduction of public debt is $1,008,700,000. Bad debt waste for 1930 is estimated at $1,000,000,000.

A BILLION dollar responsibility weighs upon the shoulders of the credit fraternity. At no period in ancient, medieval, or modern economic history has such a huge responsibility been definitely assigned to a particular class of men as has been allotted the credit executives of the United States.

The United States Department of Justice recently issued statistics showing a bad debt loss through bankruptcy of $829,685,322 during the last fiscal year. These figures do not include the huge credit losses arising from cases which never get into the bankruptcy courts. Judging from the increased rate of business failures during recent months, the total bad debt loss this year is almost certain to exceed a billion dollars.

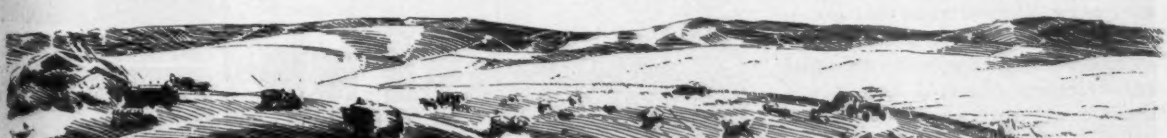
It is astounding when we realize that this Billion Dollar credit waste is equal to the vast sum that this country, by almost superhuman effort, is able to raise in the effort to reduce our public debt in one year. In other words, if our entire credit waste were saved it would pay off annually the amount we are expending to liquidate our national debt.

The widespread calamitous drought which hit the United States this year was serious enough to warrant presidential action. The results of the drought were serious and far reaching in consequences. Yet if every single grain and every single straw of all the wheat produced in the United States this year were destroyed, if the farmers did not get one cent from this wheat crop, the loss to the country would still be two hundred and forty-two million dollars less than our annual bad debt loss. Further, consider the fact that this bad debt loss is equivalent to 78 per cent. of the entire net operating incomes of our railroads; and almost as large as the total annual production of tobacco products or of rubber products. Only upon an analysis and comparison of these figures are we able to understand the significance of the credit fraternity's responsibility in cutting down this billion dollar waste.

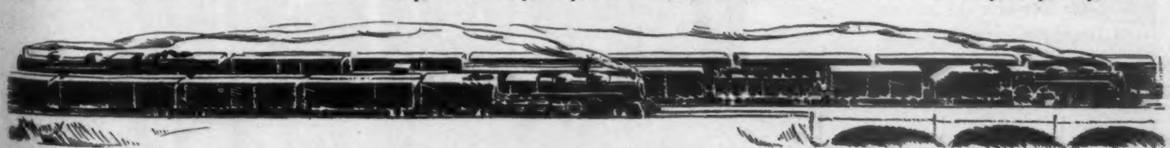
No other country is, or has been, in a position to withstand such a tremendous waste and get away with it. This waste is particularly insidious. It dissipates values gradually and almost imperceptibly. Yet we cannot continue to leave the spigot open, and let these values drip out as they have been everlastingly dripping and not suffer serious ill consequences. When the economic situation becomes somewhat tight we feel more keenly than ever the pressure and pinch of this vast waste.

Fortunately, the National Association of Credit Men has the organization and the machinery to combat this billion dollar national liability. Through a consistent program, the Association is bringing about an elevation of credit standards on the part of wholesalers and manufacturers. Business Service programs are reaching out to aid the retailer and make him a better business man. A large portion of our yearly credit waste is the result of the delay and slowness in credit interchange. A national revision of credit interchange practices is designed to bring greater efficiency and speed to this most important credit function. The Association has taken the initiative in working for improvements in the Bankruptcy Act which will discourage reckless and frequently dishonest business methods of the irresponsible element which is largely the cause of our huge bankruptcy deficit.

This billion dollar responsibility requires the thoughtful, concentrated effort and co-operation of every credit executive, and no single factor will have such a salutary effect on American business as a lessening of this vast waste by organized effort through the organization channels of the N. A. C. M.



Estimated value of U. S. wheat crop is $758,829,100. Credit waste is estimated at $1,000,000,000



Net operating income of railroads is $1,274,774,000. Credit waste is estimated at $1,000,000,000

Great fortunes just

An interview with

JULIUS ROSENWALD

By CHESTER H. McCALL

"JULIUS ROSENWALD—Monarch of Millions"—a Chicago banker applied this epithet to the Chairman of Sears, Roebuck and Company the day before I interviewed Mr. Rosenwald. The banker continued, "Rosenwald is a remarkable man, one of the most remarkable living. He is great because of his simplicity, his democracy and his refusal to credit Julius Rosenwald with any appreciable amount of Julius Rosenwald's success."

I had been itching, as most people do, to ask Mr. Rosenwald the point blank question of what had helped him the most to become a millionaire. "How have you become one of the world's richest men?" "What particular methods and ideas have you employed in making yourself a multi-millionaire?" My mind phrased such questions as these as I contemplated the approaching interview. I did ask him these questions. And he answered them. The Chicago banker was right in saying that Mr. Rosenwald's answers would be remarkable and astounding. It is necessary, however, to understand something of the life and background of the man before his replies to such questions as these can be fully appreciated.

As I was ushered into the waiting room adjacent to Mr. Rosenwald's office in the administration building of Sears, Roebuck and Company in Chicago, I wondered how much formality and ceremony I would have to go through to meet one of the world's richest men. Certainly his inner sanctum would be well guarded and fortified. "Mr. Rosenwald has not returned from luncheon", an attendant told me, "but he will return in time for his appointment with you."

He returned before the appointment time, and paused in the waiting room to find out who had the appointment with him. With a smile and a wave of his hand he said, "Come right in." And presto—the interview was under way.

"Don't say", Mr. Rosenwald cautioned me, "that I rose from poverty to riches. I didn't. I have never known poverty and my childhood experiences were those of the average boy in the small American community. And wealth, great wealth, did not come to me until late in life. I say this to discourage any of the popularized talk about 'meteoric rise from poverty to wealth'."

Julius Rosenwald was born in Springfield, Illinois, on August 12, 1862, in the city which had been the home of Abraham Lincoln. His parents knew many of Lincoln's friends and he grew up among constant reminders of the

fifty million in philanthropy

at about the time Mr. Rosenwald came with the company

'good fortune'?

. . . on the honor roll for Beauty in Industrial Buildings

■ "Success and wealth are about eighty-five per cent. chance, luck and fortunate circumstances and fifteen per cent. ability and work.

■ "More men hard-work themselves into failure than hard-work themselves into success."

Great Emancipator who was in the midst of his greatest problems when Rosenwald was born. Like thousands of other American boys he made his first money selling papers. On Saturdays and during vacations he made spending money by helping in his father's store, running errands, pumping the church organ, and on those rare occasions when circuses came to town, helping to water the elephants. His first regular job at fourteen paid the handsome wage of five dollars a month.

At seventeen he entered business in New York where he remained for five years. When he was married at twenty-seven his household expenses were about seventy-five dollars a week. In 1885 he became President of Rosenwald and Weil, clothing manufacturers, Chicago. Ten years later he bought an interest in Sears, Roebuck and Company. For the past thirty-five years he has been engaged in building up the business of this great mail order house. He served first as Vice-President and Treasurer, then as President and is now Chairman of the Board of Directors. Under his leadership Sears, Roebuck and Company is now doing approximately one hundred and sixty times the business it did in 1896, when he came with the company. One of the most famous financial statements in the world is the statement submitted in the handwriting of Mr. Rosenwald to Goldman Sachs and Company as a basis for credit. That statement is reproduced in connection with this article. Compare the net worth of that time with the position of the company today.

Soon after entering business with Sears, Roebuck Mr. Rosenwald initiated the policy of "your-money-back-if-not-satisfied". He was one of the pioneers of the idea that permanent and successful business operations consist in making each transaction of mutual advantage to all concerned. Out of his sound, conservative leadership has developed one of the greatest institutions of the present day and coincidental with this progress is the development of one of the largest fortunes ever accumulated by any individual.

The Julius Rosenwald Fund, for philanthropy, established by Mr. Rosenwald, totals thirty-five million dollars. In addition to this he has given over fifteen millions to educational, civic

Home Office at Chicago as it is today

SEARS, ROEBUCK & CO.

Consolidated Balance Sheet

December 31, 1929

ASSETS		
FIXED ASSETS		$ 97,765,377.16
INVESTMENTS		4,448,624.18
CURRENT ASSETS		145,798,587.52
DEFERRED ASSETS		3,828,736.64
Total		$251,841,325.50
LIABILITIES AND CAPITAL		
CURRENT LIABILITIES		$ 55,307,024.23
Reserves	$ 3,896,355.54	
Common Capital Stock	113,441,350.00	
Surplus	79,196,595.73	196,534,301.27
TOTAL		$251,841,325.50
SURPLUS ACCOUNT		
Balance December 31, 1928		$ 62,508,674.06
Profit for the Year 1929		30,057,652.01
		$ 92,566,326.07
DEDUCT:		
Stock Dividends		13,141,876.57
		$ 79,424,449.50
Reduction of Good Will	5,000,000.00	
Less Capital Surplus	4,772,146.23	227,853.77
Balance December 31, 1929		$ 79,196,595.73

Consolidated Income Account

Year Ending December 31, 1929

Net Sales	$403,472,007.76	
Other Income	11,907,979.33	
		$415,379,987.09
LESS:		
Purchases, Wages, Expense, etc.	372,661,522.70	
Repairs and Equipment	1,527,427.48	
Depreciation	4,711,379.90	378,900,330.08
Net Profit from Operations		$ 36,479,657.01
DEDUCT:		
Reserve for Taxes	4,193,585.97	
Payment to Employes' Fund	2,228,419.03	6,422,005.00
Net Income for Year		$ 30,057,652.01

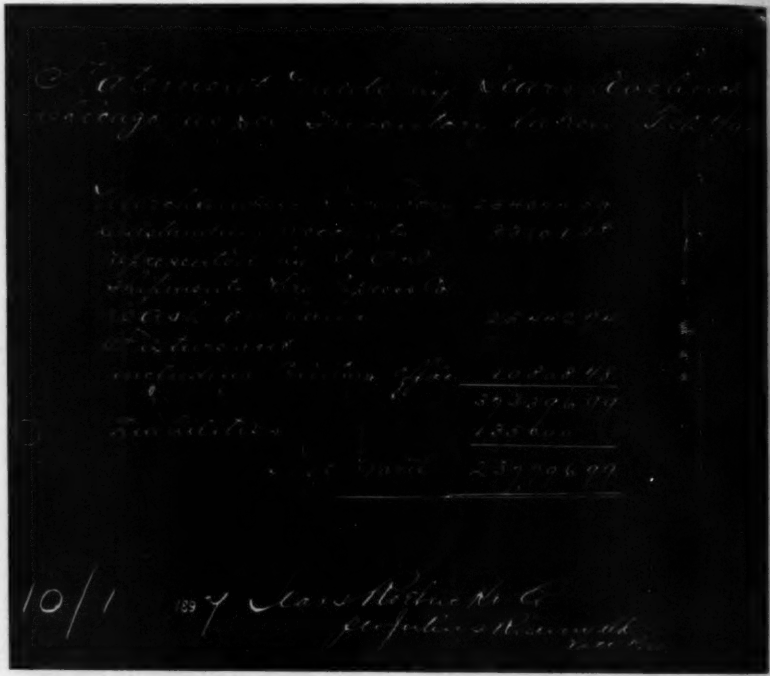
". . . one hundred and sixty times more business than when Mr. Rosenwald came with the firm"

and charitable purposes. Millions did not come to this pioneer merchant and business man until he was close to fifty yet there are already fifty millions in philanthropies to his credit and he is not yet seventy.

There must be causes and reasons back of this monumental achievement and fortune. What are they? Did this modern merchant prince crystallize these causes and reasons into practical, workable unities and tools? I asked the question, "To what methods, practices and plans do you attribute your success and wealth?"

Mr. Rosenwald answered: "I had no particular methods, practices and plans. Every thing I have or what ever I may be is chiefly the result of circumstances. I have been lucky. The fact that I have millions today and am the head of this great company is no reflection of unusual ability or anything of the kind. I happened to get in on the ground floor and work up story by story by story. What I have anyone else might have had. It might have been your

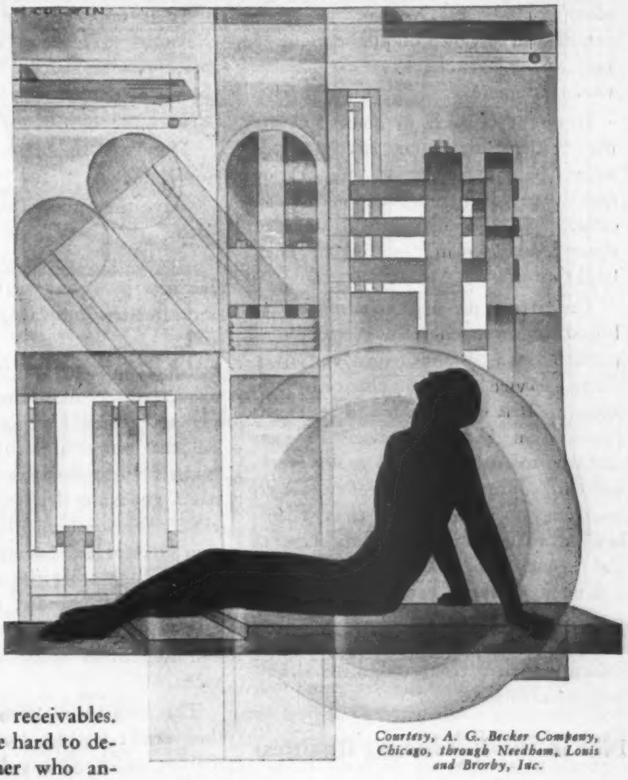
(*Continued on page* 39)



in the handwriting of Julius Rosenwald . . . an early financial statement

Mail order and retail store in Boston

■ The New Tempo in Advertising is reflected in this illustration which symbolizes a new era in thought and progress.



Courtesy, A. G. Becker Company, Chicago, through Needham, Louis and Brorby, Inc.

The Credit Problems of an Advertising Agency

BY J. H. EYDELER

Secretary-Treasurer, H. E. Lesan Advertising Agency

ADVERTISING is commonly referred to as a "game", but in reality it is a very serious business, with credit problems that are entirely different from those of a manufacturer, retailer or broker. Being a creative art, its practice is more closely associated with the professions—medicine, law, etc.

Agency credit is based upon publishers' recognition and this recognition is contingent upon the ability of the agency to pay its obligations at maturity. Consequently, the agency's ability to collect its accounts receivable within the discount period (or before publishers' bills become due and payable), is of great importance when client credit is to be established. A manufacturer may purchase his goods or raw materials on long term credit, yet insist that the retailer or jobber pay on the due date. In comparison, an agency would actually be acting as a banker if it permitted its accounts to run over the discount period.

Unless an agency's financial statement reflects a satisfactory ratio of working capital to the amount of billing placed with publications, it is difficult to secure credit from publishers. The amount of working capital is important because it is an indication of current financial strength or weakness and because it depends upon the quick liquid condition of current assets. All accounts receivable over 30 days past due are regarded as deferred assets and are therefore deducted from the working capital, as are all notes receivable and inter-office receivables.

It is therefore hard to deceive a publisher who analyzes an agency statement. Knowing that agencies receive only 15 per cent. commission on all advertising, the approximate amount of current accounts due within 30 days can easily be determined by adding 15 per cent. to the current accounts payable item as shown on the financial statement.

Intangible Capital

When additional working capital is required, an agency is not in the same borrowing position as a manufacturer. The latter has invested capital in his business in the form of land, buildings and machinery and he may even pledge his accounts receivable due within 30 to 60 days, since his long term credit with dealers in raw materials in a measure takes care of his accounts payable. An advertising agency, on the other hand, may not have any invested assets or sufficient collateral to put up as security. Its investment as a rule is in men—such as copy writers, creative personnel, or artists. Because publishers' bills must be paid promptly, the accounts receivable must be free at all times to protect the accounts payable.

It is necessary, then, for an agency to have sufficient working capital and to conserve its assets through the establishment of strict credit regulations, because it is largely dependent upon publishers' recognition for its ability to do business and in self protection publishers have become vitally concerned over the thoroughness with which an advertising agency checks credits. Although publishers look to the agency for payment, and not to the client of the agency, they nevertheless appreciate the fact that if an advertiser fails, the loss may revert back to them. Advertising history gives many instances of publishers' losses through the failure of an agency's largest account and investigation usually has proved that the agency's credit regulations have not been strict enough.

Publishing Business is on Cash Basis

The publishing business, particularly large concerns, is built on a cash basis. It is not optional with an agency to take cash discounts. Publishers' bills are due and payable on cash discount dates regardless of the agency's credit standing. This does not mean, of course, that no credit risks are taken, since publications close several weeks or months in advance of discount dates. Newspaper bills, for instance, are due the 10th of the following month, which means that advertising may have appeared forty days before the due date of the publishers' invoices. The only way that publishers can avoid taking

some credit risk is to ask the agency for cash in advance of publication. In fact, many agencies have to make advance payment.

It might be well to point out, too, that orders for color advertisements must be placed with publications months in advance and cannot be cancelled. All agencies are held liable for these advertisements in case of client bankruptcy.

The fifteen per cent. commission allowed to an agency by virtually all publications is intended to cover advertising service to the client by the agency. It is not intended to cover any financial or banking service and any attempt to make it do so spells eventual bankruptcy for the agency. Were an agency to extend credit to its clients beyond that allowed by publishers to the agency, it would necessitate an enormous working capital and an unjust load for the agency. Experience has proven that most agency financial difficulties arise from unlimited extensions of credit.

Not in the Financing Business

An advertising agency is not in the financing business and must insist that clients arrange credit elsewhere. If an advertiser's credit is not good at his own bank, certainly the small margin of profit in the advertising business does not warrant an agency's acceptance of the risk. A bank can ask for substantial security but it is not the practice of agencies to demand security.

Advertising produces such a small profit, considering the risk involved, and is such a hazardous business that the credit manager must take all precautions in extending credit.

The everyday question which arises in extending credit to a client in every normal sale is based upon two things:

(1) Is the client's credit sound?

(2) Will the client be willing and able to pay as he promises?

An important factor, however, is the moral risk and the credit manager must really inherit a sixth sense to determine whether or not an account is entitled to credit extension. Credit judgment is a most vital and important factor and even with the utmost care, no man can predict the outcome.

It is the concern with limited current assets, and perhaps a burdensome debt, that comes most often to the attention of the credit manager. That condition requires a close analysis of the situation.

It is important to secure a signed financial statement, which will eliminate possible future misunderstanding between debtor and creditor. Then these questions should be considered:

How are the officers regarded personally?

Have they proved successful business men?

Are they capable of conducting the business in a way that will constantly increase sales and earn substantial profits?

Good business practice suggests that the treasurer, in addition to the credit manager, should make a personal call on the potential debtor to acquaint himself with the personnel. This often has a good moral effect and develops a closer relationship. Usually information is imparted during such an interview, which otherwise could not be obtained. Furthermore, the client often takes the treasurer into his confidence and sometimes seeks his financial advice.

The credit man should secure further credit information from reliable sources, as the financial statement does not always reveal the true condition. Unintentional errors, such as the failure to make a foot note of contingent liabilities (notes receivable discounted with the bank, etc.) are misleading.

The analysis of a financial balance sheet for credit purposes should be made in a way that will leave no room for doubt in your mind in passing final judgment. It is well to remember a few of the following rules which often are not considered, but which are important in the analysis of the various items on the financial statement:

Apply These Tests

(1) Is the cash in bank free of all liens?

(2) Are any of the accounts receivable assigned or pledged?

(3) Are there claims for infringement of patents or failure to fulfill the terms of contracts?

(4) Are there any inter-office receivables included with customers' accounts?

(5) Have customers' notes receivable been discounted?

(6) Are inventories excessive?

(7) Have investments, such as stocks and bonds, been purchased on margin?

(8) Are there any liens on the property?

(9) Ascertain whether there are any fairly large amounts of overdue accounts payable items, as it may mean that the concern may be called upon to disburse substantial amounts in the near future.

(10) Are notes payable secured or unsecured?

(11) Is there an adequate reserve for doubtful accounts?

(12) Has an adequate reserve been set up for depreciation?

(13) Does the financial statement indicate an ability to collect outstanding accounts receivable,—to increase the supply of cash on hand?

The desire for increased billing and profits should not tempt advertising agencies to extend credit carelessly. A loss of $6,000.00 actually means this:

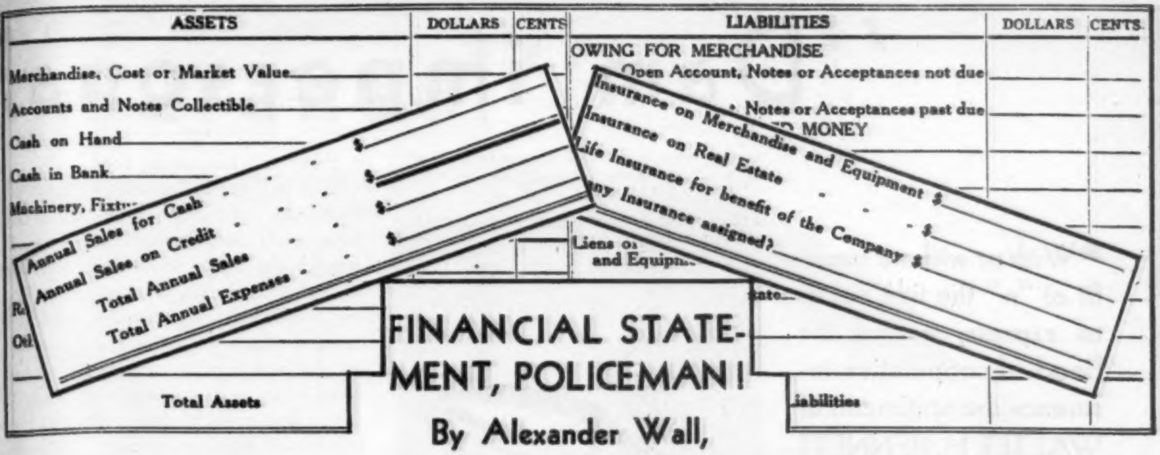
The gross revenue on $200,000.00 is $30,000.00. Good practice requires that an agency should expect to make at least 3 per cent. net profit out of the 15 per cent. commission. On this basis, a loss of $6,000.00 actually represents a loss of $30,000.00 revenue, and it is necessary to secure additional billing in the amount of $200,000.00, to balance this one loss. And this does not take into consideration the lost time which could have been used more profitably in another direction.

The Cash Discount as a Danger Signal

The two per cent. cash discount allowed by publishers is passed on to the advertiser and not only expedites collections but serves as a danger signal. When an advertiser fails to take a cash discount, it is a sign that his credit is not all it should be, otherwise he would borrow from his bank at five or six per cent. a year to save two per cent a month. The very fact that he passes up that profit is evidence of weakness and the agency is thus forewarned.

Compared to many businesses, advertising agency operation is still in its infancy with all of the problems that any young industry faces. But, because of the co-operation which is being established between related advertising organizations, many difficulties which must be met today will automatically be taken care of in the future.

Publishers' recognition has solved the problem of agency capital and many more obstacles will be overcome by similar methods as experience proves the measures necessary and beneficial to all concerned.



FINANCIAL STATEMENT, POLICEMAN!

By Alexander Wall,

Secretary, Robert Morris Associates, author of "Ratio Analysis of Financial Statements," and well-known authority on financial statement analysis.

NEXT MONTH

Mr. Wall will write on "Financial Statement-Salesman!"

As credit granting took on an impersonal aspect, to a greater and greater extent credit men began to talk of a credit science. This was in contra-distinction to the earlier belief that there existed some sort of a credit intuition by which a credit man could estimate the paying ability of a debtor accurately and safely. While credit relations had remained very largely local and personal, this intuitional method had worked with a fair degree of safety for the creditor. The guild of credit grantors considered themselves a chosen people to whom a special power had been given. This attitude may have some basis in psychology. It is still probably true however that the intuitive credit decision and the openly deducted credit decision are based upon the same underlying facts.

Why talk loosely of a credit science or the science of credit granting? It would be much better to start with fundamental definitions and use our phrases accurately. What then is the real meaning of "Science"? Webster's dictionary lists the following definition of science, among other definitions:

> "Any branch or department of systematized knowledge considered as a distinct field of investigation or object of study."

This study must result in an accurate knowledge of facts and not consist merely of a net work of fancies or impressions. All scientific methods are essentially methods of discovering order in data so that the essential meaning of such data may become clearer and usable. Those who aim at reducing credit granting to a science plan to substitute definite facts for suppositions; to arrange these facts in accessible form; to relate certain facts to others and finally to deduce or even prove a condition from these relationships.

Financial statements graduated from mere memoranda several decades ago when their preparation was shifted from the directly interested party to the accounting specialist. Only so long as the accountant examines available data and prepares his reports in an impersonal attitude are financial statements truly scientific data. Let any accountant twist the facts, scan them hurriedly, present them in a prejudiced manner, or omit certain facts, and the resultant data is worthless, for an unsound basis cannot support a sound superstructure. The fact that financial statements, even in their cruder forms, had the appearance of facts that could be studied, tabulated, analyzed and put through the tests of a scientific study brought the attention of the pseudo-credit scientists to focus on financial statements.

Within the memory and experience of the writer financial statements were too often held as simple memoranda or notes. They might be read, as a magazine or newspaper is read, and filed away leaving only a fading mental impression with the credit man. And then came the real application of science in the tabulation of the facts from the financial statements of any name into a running record for careful comparative study. The comparison sheet was born, the child of the earliest scientifically-minded credit man. From this point on there has been a steady advance toward a scientific use of statements in credit work.

In order to understand the application of science to statement analysis it seems logical to trace the changes of method from period to period. The earliest users of the comparison form made use of the two main divisions of the statement, assets and liabilities. In the usual form of the statement itself these are set side by side and footed to equal totals. Since this sort of set-up precluded comparison of subsequent data, the analyst developed a more flexible form in which the assets appeared above the liabilities. Accompanying the list of the various assets and liabilities were a number of ruled columns extending to the right in which the dollar figures for a series of years could be entered. This form made it possible to compare several successive statements, over a period of years, in their direct relationship to each other. The analyst no longer had to cover his desk with separate statements or rely on memory to check the inventory of this year with that of all the preceding years. He had started the orderly assembly of the facts so that he could study them as a whole.

Very shortly after this method of recording data was evolved analysts became conscious of variations in character within the various types of items of the statement. Among the liabilities there were some that were reaching maturity, or pay day, in the near future for which provision for payment had to be made. Ability to pay means cash or its equivalent on hand on pay day. Among the assets there were some that the orderly course of business was turning into such cash. Merchandise was being sold and providing some

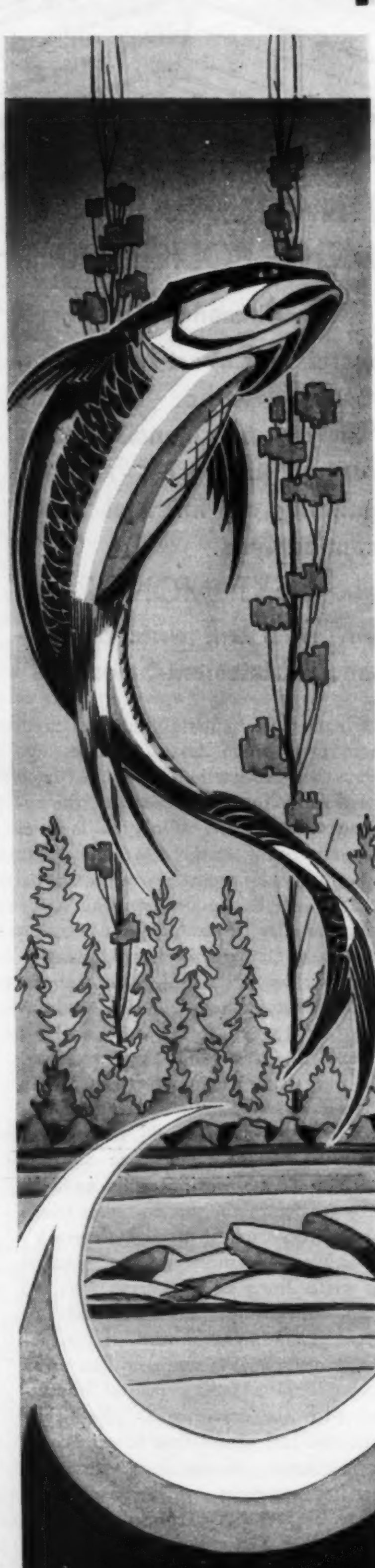
(*Continued on page 41*)

''Dam impersonal

■ With or without benefit of "n" the title seems to express, toward the flood of cooperative insurance, the sentiments of

WALTER H. BENNETT
Secretary-Counsel, National Association of Insurance Agents

". . . just as important to the credit man as to the local agent"



"THERE is a river in Macedon, and there is also moreover a river at Monmouth: it is called Wye at Monmouth; but it is out of my brains what is the name of the other river; but 'tis all one, 'tis alike as my fingers is to my fingers, and there is salmons in both."—Henry V.

There "is salmons" in the Alaskan waters that find their way to many an American dinner table but nobody cares about the long journey they must take before they reach their final destination.

The epicure awaits eagerly the "first fresh salmon and the first green peas", but to the average American mind, the salmon that finally becomes a croquette is essentially a canned salmon, and may have been spawned and have lived and died in its casket of tin.

There is a romance in the story of the great Alaskan salmon fisheries. There is a romance of business in the manner in which the lowly salmon reaches the American table; in the countless processes through which it goes from the time it is dragged out of the icy Alaskan waters until it reaches the housewife's basket, to be served up, a cheap and nourishing food.

It is perhaps unknown to many that from the time it is caught up in the fisherman's net, brought into a hull, reaches the docks where it is iced and packed into barrels, transported by motor or railroad to the cannery, while it is going through the canning mechanisms, on the long journey through the canal from West to East Coast, and finally to the shelves of the corner grocery, it may be covered by a single policy of insurance.

The incident of the operation of an inland marine policy "flying around the earth" is an extreme case. It is modern enough for the most modernistic. Its real practicability and its legality, however, yet remain to be tested.

This homely illustration is cited as indicative of the attempt insurance is making to simplify American business and at the same time keep the pace with modern ways and extend its protecting arm around every industry.

"There is salmons in both"

Stock insurance through local agent retailers is dedicated to the task of furnishing the most flexible form of protection to industry that is consistent with sound business practices. It is undertaking to go forward courageously, but not impetuously; to follow the sound advice:

"Be not the first by whom the new are tried,
Nor yet the last to lay the old aside."

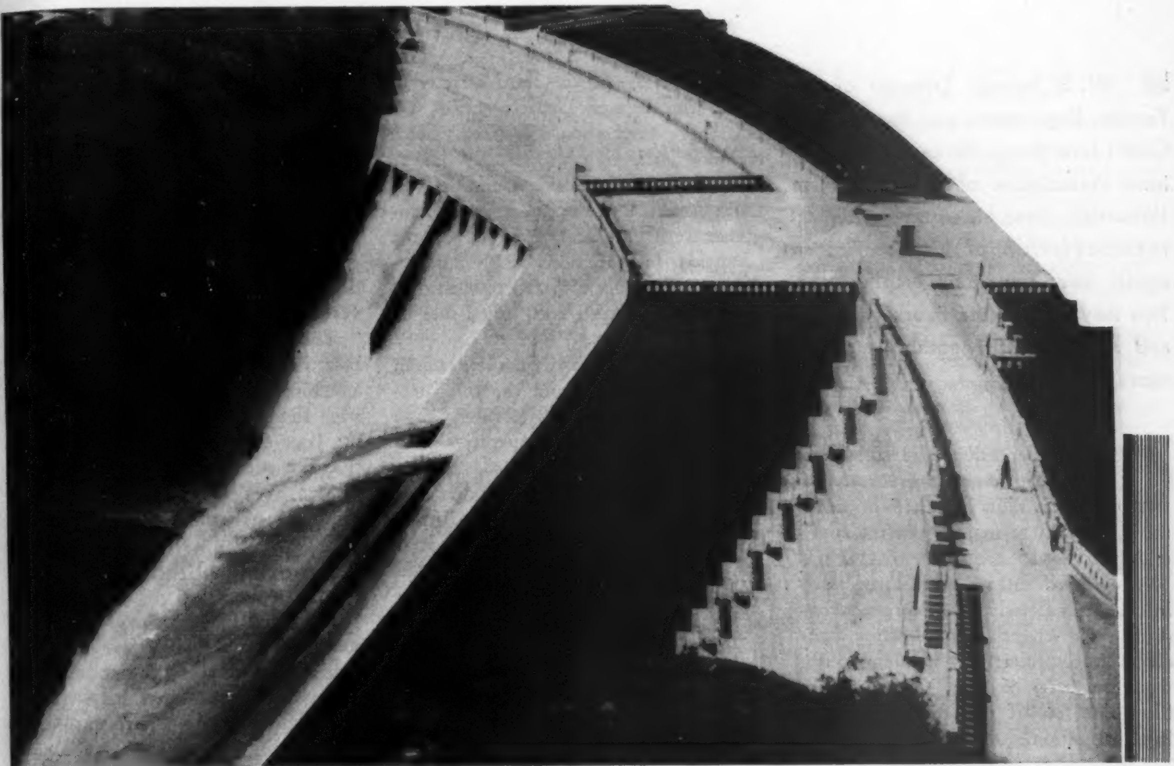
The going is not easy. Recently there appeared in the American Agency Bulletin, official publication of the National Association of Insurance Agents, the following fable which you may be assured is not overdrawn nor extravagant:

This is the fable of one day in the life of an insurance agent's wife.

The first scene takes place early in the morning.

The laundryman comes to deliver a bundle. The careful housewife scrutinizes the bill. "Why," she asks, "is there always an unexplained charge of one cent added to my bill?" "That's for insurance. Every bundle we take out car-

insurance!"



". . . two rivers that must stem together: sound insurance and sound credit"

ries that one cent extra charge and then the owner can't lose, no matter what happens."

"And are you licensed as an agent to sell insurance?"

"No, ma'm, I don't sell insurance—we just add it."

The next household chore involves sending the rugs to the drycleaner to be cleaned and stored for the summer. The truck draws up, the rugs are rolled and put into it, and the driver says:

"For just ten cents extra on each rug, lady, we can insure them from the time they leave here, through storage, and until they are delivered to you in the fall."

"And have you a license to sell me insurance on my rugs?"

"No, I don't need no license. The Rug Cleaners Mutual takes care of it."

Then comes a trip to the furrier to store her fur coat. The cost would be twenty-five dollars, so much for cleaning and repairs, so much for actual storage—and so much for insurance.

"But my husband is an insurance man, and my coat is already insured," she protested.

"That has nothing to do with it," said the furrier. "Our rule is to write the insurance ourselves as every furrier and bank storing furs does.

"Licensed as an insurance agent? But no. We need no license. The Fur Dealers' Insurance Company takes care of it for us.—Oh, yes, they pay us a commission for handling it."

Arrived at home, she finds the afternoon paper on her doorstep. She opens it to see in glaring headlines—"INSURE YOUR PEACE OF MIND FOR ONLY TWO DOLLARS A YEAR." Gruesome descriptions of automobile accidents are set forth, and—"through arrangement with the Flybynight Insurance Company the *Evening Gasette* can provide you complete accident insurance protection covering up to $10,000 in case of loss of life, at the small charge of two dollars a year. Fill in the coupon for yourself and every member of your family."

With everybody else selling insurance as a side-line, she reflects, what is left for the insurance agent to sell?

Whereupon, she pawned her fur coat and her Oriental rugs and turned to her wash tubs while her husband, the erstwhile agent, took his stand in front of the building which formerly housed his prosperous agency, and started a new career as a newsboy.

Legitimate stock insurance is finding itself the center of attack from all sides. Among others the laundryman and the rug dealers and the furriers have conceived the idea that they may save commissions to agents through writing their own insurance, and yet not pay the consequences. There is a consistent barrage of propaganda all over the country, undertaking to create a demand on the part of the public for direct-to-the-consumer insurance. Most of it is paid for as advertising, but in its most cunning form it has crept into the columns of some of the leading business papers of the country. It may be that CREDIT MONTHLY has been chosen as one of the victims, but if so, it is to the credit of the sound judgment of its editor that no such publicity has ever been able to crash its columns.

Scores of important trade associations have organized their own co-operative

(*Continued on page* 43)

Current Survey of Credit Conditions

W. S. Swingle, Director of the Foreign Department and the Foreign Credit Interchange Bureau of the National Association of Credit Men, in this article gives his current statistical interpretation of Latin-American credit conditions and collections. You may refer to the February, April and July Credit Monthlys for previous surveys.

CREDIT conditions and collections in twenty-one Latin American markets show but little improvement, and, in the majority of the countries surveyed, continue to decline. Where improvement is indicated, it is in countries already in a depressed condition, and credit and collection conditions in the countries which previously were the best, have fallen off. There have been few, if any, marked changes in the situation.

This chart shows graphically collection conditions in twenty-one Latin-American countries at five different periods. The scale numbers are based on the percentage of reports of prompt collections for each country during each survey.

At the close of the third quarter of 1930, the Foreign Department of the National Association of Credit Men completed the eighth Quarterly Survey of Credit and Collection Conditions in Latin America. The present survey, together with graphical charts covers the conditions in September, 1930, and carries forward the summaries published in the February, April and July issues of CREDIT MONTHLY.

The eighth Quarterly Survey has been added to the charts and the four previous surveys running back to August, 1929, are shown for comparative purposes. The results of the surveys are based on the experiences and opinions of members of the Foreign Credit Interchange Bureau of the National Association of Credit Men, whose membership comprises several hundred leading American exporters.

The survey of credit conditions is a guide to the situations existing in the various countries, and has to do with the credit background of commercial transactions rather than the general economic or political situation existing in any country. The reports of collections refer to the promptness with which payments were received on or after due date, and do not necessarily indicate any change in terms. Causes for delayed payments have not been taken into consideration.

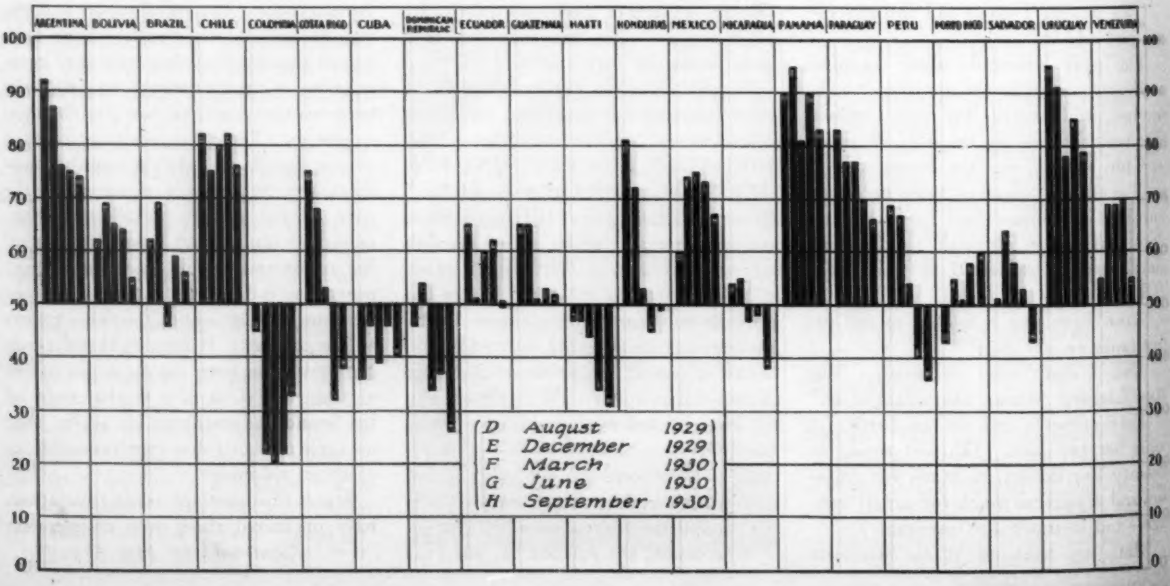
In only seven of the countries surveyed does the credit index show improvement, and of these, but four countries indicate noticeable changes. The credit index figures for the remaining countries have declined and more than balance any improvement, so that general credit conditions continue to reflect depressed business in the countries surveyed.

The countries which do show the most improvement, namely, Porto Rico, Colombia, Nicaragua and Honduras, are with the exception of Porto Rico all in the Poor or Very Poor classification, so that the effect of the improvement indicated does not materially affect the general situation.

None Classified as "Good"

The credit index for over 60% of the countries indicates Poor or Very Poor conditions. None of the countries can be classified as Good, which is the first time since the surveys were started, over two years ago, that this condition has existed.

Disturbed political conditions which have existed do not have so much effect on credit conditions as might be supposed, or they have not brought about any great upheaval in ordinary commercial transactions. The storm damage in the Dominican Republic has



and Collections in Latin America

affected conditions there, and made a bad matter even worse. In a number of countries, business has not continued to carry forward the improvement shown in the last survey. The falling-off in other countries is largely due to continued depression in commodity prices and general business conditions, and the lack of any change in the situation which will bring about noticeable improvement.

In slightly more than one-half of the countries surveyed, payments are at least 50% prompt.

Collections in interior business in many of the countries continue considerably depressed and delayed, these easily being translated into slowing up in payments for imported merchandise.

For the benefit of those who may not have a record of the previous basis on which these surveys were made, it may be explained that the Survey of Credit Conditions is based on the reports of "good", "fair", "poor", worked into percentage figures of all those reporting, and from these percentages into an index figure, as used in the accompanying chart. The classifications are of necessity more or less arbitrary, but are based on the following:

The index of 250 or better covers a percentage of not less than 60 per cent. good—40 per cent. fair, and is classified as "good".

The index of from 250 to 225 is classified as "fairly good", with the lowest possible percentage of 25 per cent. good—75 per cent. fair.

The index figure of from 225 to 200, with a lowest possible percentage of 100 per cent. fair, is classified as "fair".

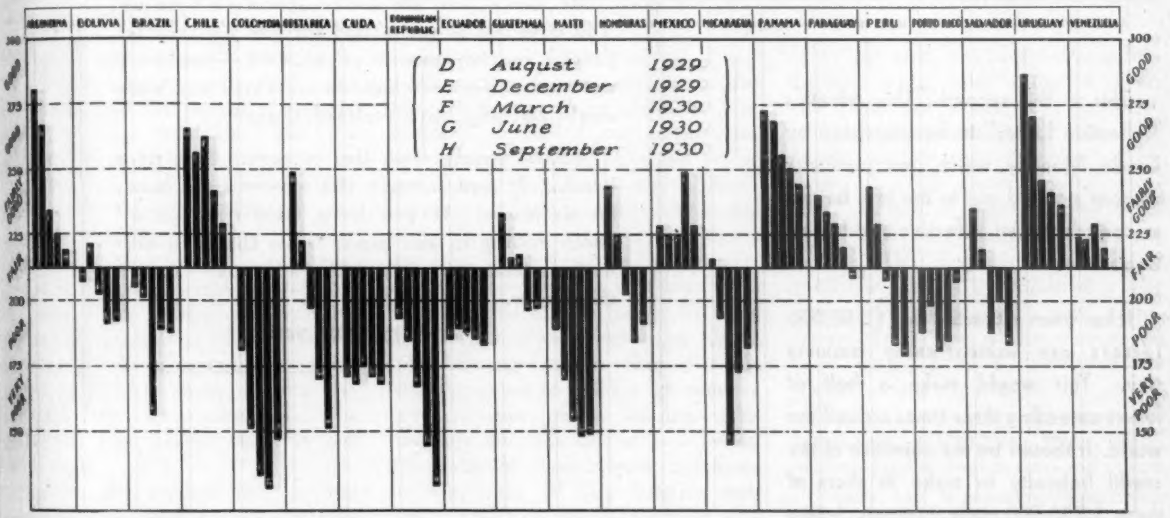
The index of from 200 to 175 is classified as "poor", with a low percentage of 75 per cent. fair—25 per cent. poor.

Below this index, the classification is "very poor".

The mean of the "fair" position has been taken as the base for graphical purposes to get an easier comparison.

The chart for Collection Conditions is based on reports of either "prompt", or "slow" collections, worked into a percentage of those reporting prompt collections for each country at the time of the surveys. The mean of 50 per cent. has been arbitrarily chosen as the base for graphical work.

The chart below gives credit conditions in twenty-one Latin-American countries, based on data compiled in five surveys described in this article. This chart is scaled on the basis of the credit condition index figures which express mathematically the combined opinions of individual reports on each country.



Reports of collections have declined and the credit index figures show a more general falling-off than in any previous survey. In only three countries is improvement shown in collections, the most noticeable change being in Colombia where payments are gradually being made on many overdue accounts, and business although still slow, nevertheless appears to have turned the corner. The decline in the other countries makes the whole collection picture darker, but it still remains relatively unchanged. This decline in many cases cancels the improvement which was shown in the previous survey, and would appear to indicate the fact that even though purchases are being held down to a minimum to meet actual requirements, yet previous hopes for improved conditions in the past three months have not materialized.

Bottom of Curve?

It is hoped that this survey will indicate the bottom of the curve in the decline of both index figures. However, if the turn has been reached it is likely that improvement will be gradual and will be extended over many months, for depressed conditions are not due to any unusual collection of circumstances or sudden panic, but rather to a reflection of a general depressed world condition, which will take time to adjust itself, but which can only be met by the carrying forward of sound export credit principles.

"This Month's Collection Letter"

This is the second "This Month's Collection Letter" to be presented by Credit Monthly which, for particular reasons pointed out in the text below, is considered an effective result getting letter.

It has been estimated that 1,250,000 letters are written every business day. This would make a belt of letters extending three times around the world. It should be the objective of the credit fraternity to make its share of these 1,250,000 daily business letters the most efficient and effective of any letters written. Every Credit Monthly reader is invited to send in any particularly original or effective collection letters that he uses.

Dear Mr. Black:

"Friendliness in Business" is our motto! We try to build the friendship of each and every one of our customers by extending prompt service and shipping A-1 merchandise. We co-operate further by allowing special terms on invoices where justified and our customers are doing their best to co-operate with us.

Mr. Black, you are not co-operating with us. You have not as yet settled for our January 1st invoice in the amount of $106.00,—you have not paid us for merchandise on which you have doubtless long since realized a profit.

What's wrong with this picture? Give us a break. If you haven't the money right now, let us know. If you have, send that lil' ol' check rolling in and prove to us that you also wish to maintain friendship with us. You're the doctor.

Very truly yours,

______ _____.

AT few periods in American business has the necessity for good collection letters been so imperative as it is today. Money is not only hard to get, it is difficult to collect and still maintain good-will and keep the friendship of customers. Of all the letters that go out from a business organization each day, there is none that should be written with more thoughtfulness and care than the collection letter. The collection letter selected for this month's presentation is particularly appropriate at the present time and is written to maintain friendliness and good will while containing elements that should bring action on the part of the debtor. This letter was submitted by Mr. M. J. Smith, Citrus Products Company, Chicago, who has sent along with his letter the following comments:

"This isn't what you would call a 'snappy' collection letter; it doesn't 'poke the debtor in the ribs' and make him laugh; it's just a plain out and out appeal for co-operation and it has produced the results the writer hoped it would.

"The writer has found that ordinarily the would-be witty or a trifle sarcastic collection letter will hit the debtor on the other side of his funny bone and will effect an undesirable comeback with the likelihood of losing the account. It is my belief that a letter of the type I have submitted, asking for the money due in a friendly manner and bringing the fact to the customer's attention that he has realized profits while we sit on the doorstep and wait, cannot fail to bring at least a reply. And—from some types of customers, it is almost impossible to obtain replies to collection letters until they are ready to make an actual payment.

"Further than this, a letter of this sort gives the customer the advantage of telling us whether or not he is actually hard up; it makes it simple for him to reply, giving us information as to when he will be in a position to pay, for he realizes that we are willing to grant him an extension if he can prove it is justified.

"Businesslike,—it impresses upon the customer that we really mean business and 'You're the doctor' probably implies to him all that we mean without putting a threat in actual words."

Protect Your Records Against Loss By FIRE!

BY H. P. WEAVER, M. E.
Vice-President, Independence Bureau

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TWO experiences will serve to illuminate many simple but vital aspects of this question; two true stories, one of "hindsight" and the other of "foresight."

In 1922 occurred the classic of record losses by fire. In Chicago, the main office building of one of the great railroads of the continent burned out. It was fifteen stories high, of the finest modern fire resistive construction, structurally a credit to its builders, yet the contents of the seventh to the fifteenth floors were almost entirely destroyed. Every record on those nine floors was gone except those in one small vault.

One of the railroad officials was quoted as saying that if it were possible to do it, the replacement of the records which were lost would cost in the neighborhood of thirty million dollars. At first thought, this seemed to be stretching the imagination a bit, but what has since been learned about the value of records indicates that this might easily be reasonable.

One of our engineers had just left Chicago when the first headlines in the paper of a neighboring city reported the fire. Sensing its importance, he returned to Chicago immediately. The fire was a classic indeed. Many things that the fire protection engineers thought they knew proved not to be so, and it was necessary to revise in many respects our estimate of what may be expected to happen when a building of that type burns. Every scrap of woodwork had burned, even the wooden nailing strips embedded in the concrete, leaving the nails in the grooves.

When the engineer returned to our office, he found a letter from the Vice President of one of our largest and best managed electric light and power companies. The letter said: "Please come up and look over plans for a new office building." He left post haste. After his arrival and preliminary survey, the first thing he said was, "You have valuable records here. We have just learned a very important lesson, and advantage must be taken of it. It will not suffice to build a fire resistive annex to your present building. The structure must be studied as a whole. The value of these records is beyond anything that we have hitherto realized." The Vice President replied. "If you think our records are worth dollars, I challenge you to prove it. To be sure, their loss would be inconvenient, but as for their representing a substantial money value, that is absurd."

Taking Up the Challenge

There was the challenge. It remained for the engineer to make good his statement. Something guided him to the office of the electrical engineer first. Here the question was stated.

"You have come to the right place," answered the Electical Engineer. "We have in this department one hundred thousand pole cards. A pole card is the diagram for a pole on the system, showing each cross arm, each pin, each cable, its size, where it goes and where it comes from. To replace these cards which are necessary to economical operation would cost in the neighborhood of $1 per card. The Fire Protection Engineer wrote down $100,000 in his note book and wondered. The Electrical Engineer continued, "We have 40,000 conduit manhole cards. These show full details of every conduit manhole. To replace them would be much more expensive, probably $10 per card." The Engineer wrote down $400,000 and still wondered. The enumeration continued with transformer cards, maps, service records, and so on until a total of $1,440,000 was reached in one department.

Thus it went from department to department, Installation, Street, Engineering, Station Engineering, and others.

Finally, the Accounting Department was reached. Said the Vice President in charge, "Accounting records cannot be valued by the piece or by the dozen as engineering records can. However, what happens if I lose my customers' ledgers?" The answer seemed quite simple, involving only the sending out of a two months' bill next time, instead of a one month's bill. But then the Accounting Vice President pointed out that if the records were destroyed the previous meter readings would be lost at the same time, and hence a bill could not be calculated even with a subsequent reading of the meter. His estimate was that at least a half month's income would be lost, or $500,000.

So the total mounted until it finally reached a figure just short of $4,000,000, the probable actual out-of-pocket loss if the records should be destroyed.

Then the Engineer, still scarcely able

to believe it all, returned to the Vice President who had challenged his statement, and reported. Heads were shaken, brows were knitted, and the Engineer was told to be on hand next day for a meeting of officers and department heads. They were all there—a dozen or so of them. In perhaps twenty minutes, the Engineer told his story. Then came the comments of the others, the amazing comments of alert, and quickly awakened executives.

Said one, "My job is to run the system. If our records are lost, we will continue to run it. We will make kilowatts and put them on the line, but everything we do will cost more money for lack of vital records. Every piece of construction, every bit of operation will be carried on under handicaps, in some cases for years to come." Each man in charge of one of the activities of the company had a like story to tell.

Finally, up spoke another man who said, "My department makes contact with the public. For thirty years we have been working patiently and persistently to create and maintain happy relations with the public. Records are the lubricants that enable us to do business with the public without friction. Three mistakes in a row will temper the cordiality of the best of customers. Without our records we could do more harm to our relations with the public in thirty days than we have been able to do good in thirty years."

Many other equally searching comments were made. At the end of two or three hours of this, the meeting broke up, but a new appreciation of the value of records had been gained.

The Engineer was told to report for an interview with the President of the Company the next day. The President opened the discussion by saying, "Our records are worth what you say they are and more. We have been overlooking a matter of very grave importance. We are not here to discuss whether something should be done, but what should be done about it." This man is recognized as one of the keenest minds in the industry. When a hard headed business man recognizes in this fashion the value of the Company's records, and is willing to back up his convictions by expending his Company's hard earned dollars to protect them, his opinion must be regarded in a very different light from that of the fire protection zealot who may easily be biased, and over-estimate the importance of the subject in which he is interested.

The plans for the new ten story annex were radically changed. All combustible interior construction was eliminated. It was decided that all furniture and interior trim should be of steel. Later the older buildings in the group were overhauled and similar steps taken to renovate them. As a part of the new building, a ten story self supporting vault was constructed, so arranged that even if the other buildings should collapse, the vault would still remain standing. All vital records were kept in these vaults. Window openings were protected against the serious conflagration hazard by which the group of buildings was surrounded. Now a wholly different situation exists. The buildings themselves contain almost nothing that can burn, except the records, and these are so disposed that their destruction by fire is scarcely conceivable even under the worst of conflagration conditions.

With a little care and a little thoughtfulness, these self same ideas can be applied to almost any business that has records of importance,—and what business does not have them today? Increasing complexity of business organization and procedure has made absolutely vital many records which were not needed in simpler days. They may be expensive to make and maintain, but the fact remains that business as it is done today cannot be carried on without them.

Courtesy, Continental Casualty Co.

Are records valuable? Yes. They have certain definite kinds of value which any business man can recognize if he will give thought to the subject.

First, there is the simple replacement value, the cost of actually replacing such parts of the records as could be replaced, and as it would be necessary to replace.

Second, there is what might be called consequential value. When the record of accounts receivable is lost, the business fails to make collections. That is a consequential loss. A department store, after losing its records by fire, put an advertisement in the paper inviting those who owed accounts to come in and settle, explaining that records had been lost. They were optimists — they made a great mistake as the meagre volume of collections proved.

Then, there is a third kind of value that is intangible, but may be extremely important. It may be called contingent value. Corporations keep minutes of the meetings of the Board of Directors. They are the legal back bone of the company. In the event of controversy they are invaluable. It is difficult to say how a money value can be placed on records of that sort, but, nevertheless, the possibility of loss is serious.

Everywhere, alert business men are recognizing the value of records. Hard headed executives are spending money to protect them. Insurance companies are showing a willingness to insure certain kinds of records. This is a good sign because insurance companies as a rule are loath to insure anything for which definite value cannot be established in event of a loss. A United States Supreme Court ruling recognizes the propriety of including the money value of records in the valuation of a public utility. If such companies have millions of dollars' worth of records necessary to the conduct of their business, it seems clear that such records are entitled to recognition among the

(*Continued on page* 45)

Financial Statement Aspects
Of Bonds and Preferred Stocks

By JOHN STEVENSON
Statistician, Kidder, Peabody & Co., Lecturer, New York Stock Exchange Institute.
Last month Mr. Stevenson wrote on "Financial Factors Affecting Industrial Companies."

THE procedure followed in analyzing the investment desirability of fixed income bearing securities, either bonds or preferred stocks, is at best complex and involves the consideration of a number of different factors. In an article such as this it would be virtually impossible to make any pretense of completely covering the various aspects of the subject. One of the factors which is always considered in analyzing senior securities is the number of times interest charges or preferred dividends are earned. While this ratio is commonly used there are certain refinements in connection with its use which are generally not understood by the investing public at large. In this article certain of these refinements will be discussed with especial reference to applying the ratio to various forms of corporate enterprise.

The earnings of the company whose securities are being considered for investment should be obtained for a period of at least five years and the balance of earnings in each year applicable to interest charges ascertained. In arriving at this figure care should be exercised to determine if all proper deductions have been made, including depreciation. In some instances this will necessitate recasting the income account to include depreciation as an operating expense, since some companies follow the practice of deducting interest charges before deducting depreciation.

An important point to consider in connection with second mortgage bonds of a company can, perhaps, best be illustrated by the following hypothetical income account.

Balance for Interest	$500,000
Interest on First Mortgage Bonds	200,000
Balance	300,000
Interest on Second Mortgage Bonds	50,000
Net Income	$250,000

An inspection of the above statement reveals that interest on the first mortgage bonds is earned two and one-half times, while interest on the second mortgage bonds is, apparently, earned six times. This would seemingly indicate that the second mortgage bonds enjoy a more favorable position with respect to earnings than the senior issue. The fallacy of this reasoning may be seen when it is considered that the first mortgage bonds have a prior claim on the earnings ahead of the junior issue. In order to show the relative position of the two bonds with respect to earnings it is customary to include the interest charges on the first mortgage bonds along with the interest charges on the junior issue. Interest on the junior and senior issues would then be earned twice.

In computing the position of a preferred stock with regard to earnings, the statement is frequently made that "the preferred dividend was earned twice". To say that the preferred dividend was earned twice might be a perfectly true statement of fact but it fails to take into consideration any senior securities which may be outstanding. The following hypothetical income account will illustrate the situation.

	Company A	*Company B*
Balance for Interest	$1,000,000	$1,000,000
Interest charges	400,000	—
Balance for dividends	600,000	1,000,000
Preferred dividends	200,000	500,000
Balance	$ 400,000	$ 500,000

In the above statement the preferred dividend requirements were earned three times for Company A and only twice for Company B. On first thought it would appear that the preferred stock of Company A was in a superior position to the preferred stock of Company B with regard to earnings. However, Company A has $400,000 interest charges ahead of the preferred dividend, while Company B has no interest charges. In other words the preferred stock of Company B has a first claim on the balance of earnings remaining after the payment of operating expenses, while the preferred stock of Company A has only a second claim on the earnings subject to the payment of interest charges. Neither of these two points is brought out by the statement that "the preferred dividend is earned three times for Company A and twice for Company B". In order to present the situation in a clearer light, sound statistical practice requires that a computation be made showing "the number of times interest charges and preferred dividends are earned". That is to say the amount of the preferred dividend is added to the amount of interest charges and the sum of the two is divided into the balance available for

(Continued on page 46)

Use the New Insurance Statement Form!

FOR a number of years, credit executives have felt that the number of insurance questions on the regular Financial and Property Statement forms has been insufficient to give them a complete and necessary insurance picture of a debtor merchant. The National Association of Credit Men has received during past years a large number of letters attesting this fact. Several credit executives have made the emphatic statement that a special insurance form or statement should be compiled for use in connection with Financial and Property Statements.

Many credit executives have found the number and nature of the questions asked on standard financial statements to be insufficient and inadequate. A credit executive from Ohio reports an interesting case. The six insurance questions on the property statement sent to a debtor merchant had been filled out completely and satisfactorily. One simple and yet significant question was not included in those asked about insurance—"What co-insurance is on the fire insurance policies?" Through a lack of proper co-insurance, this Ohio company stood a five thousand dollar loss as a result of a fire which destroyed a large portion of the goods and property of its customer.

Bankers as well as commercial credit executives will find the new Insurance Statement of great value because it will give them a complete and comprehensive picture of the insurance stability of their customers. In the September CREDIT MONTHLY, Mr. Percy H. Goodwin, chairman of the Executive Committee, National Association of Insurance Agents, told how a man had come into his local agency office to secure $100,000 fire insurance on his plant equipment and merchandise for the express purpose of getting a bank loan. About sixty days later, this assured came back to Mr. Goodwin's office and desired to cancel his policies, stating that he had taken out the insurance in order to show the policies to the bank as a basis for a loan. While in this case the bank's attention was called to the proposed cancellation, and the assured was required to carry insurance until his loan was liquidated, there are hundreds of cases where the bank or commercial credit executive does not have such protection. For this reason, a continuing statement is embodied in the new Insurance Form guaranteeing that until notice of any change in coverage is given, the Insurance Form shall be regarded as a continuing statement. This is regarded as a very indispensable and significant element of protection and will certainly be welcomed by every credit executive.

Important as the Insurance Statement may be for giving a complete and accurate insurance picture, its educational values will be inestimable. The debtor merchant, receiving this comprehensive statement will realize the importance of insurance coverages to credit and financial executives and gradually fall in line, if he has not already done so. There will also be a psychological effect on the credit executive himself. It will encourage him to check more thoroughly his own coverages. One business man, to whom the statement was shown, said, "Credit executives might well address one of these statements to themselves."

For a number of years the statement has been made, "No insurance, no credit". Today business has found it necessary to say, "Without complete and adequate coverage, no credit". It is to meet and satisfy this important need that the new Insurance Statement shown on this page has been compiled for the use of the business men of the United States.

INSURANCE STATEMENT

OF

____

TO

____

(Form adopted and recommended by National Association of Credit Men)

This statement is submitted to you to supplement our Financial and Property Statement in order that you may accurately judge my (our) insurance coverages for the purpose of extending credit accommodation.

1. If a partnership, do you carry Business Life Insurance?________ How much?________
   Does this insurance also provide accident protection? ________
2. Is the treasurer bonded, and for how much?________
3. Do you carry Fidelity Bonds or Dishonesty Insurance?________ State whether Individual, Scheduled or Blanket________
4. If automobiles are used in your business, are they covered by Liability Insurance?________
5. If a store, is General Liability Insurance carried?________
6. Are the elevators insured for Public Liability?________
7. What are the values of the property, and how much Fire Insurance is carried?
   Property values $________ Insurance carried $________
   What co-insurance is on the Fire Insurance policies? ________
   List companies with which you carry insurance________
8. Is Business Interruption Insurance carried?________
9. If there is a lease, is the leasehold interest insured?________
   Is the rental income insured for loss by fire?________
10. Is building sprinklered?________ Name system________
    If building is sprinklered, and stock susceptible to water damage, is Sprinkler Leakage Insurance carried?________
11. If oil heater or gas on premises, is Explosion Insurance carried? ________
12. Are goods in transit insured?________
13. Are you protected by Check Alteration and Forgery Insurance?________
    Is Burglary and Hold-Up Insurance carried?________
14. When were your various insurance policies last examined or gone over by an insurance expert?________
15. What other insurance do you carry?________

The foregoing statement has been carefully read by the undersigned (both the printed and written matter), and is in all respects complete, accurate and truthful. It discloses to you the true state of my (our) insurance coverages on the ________ day of 19____ Since that time there has been no material unfavorable change in my (our) insurance coverages; and if any such change takes place I (we) will give you notice. Until such notice is given, you are to regard this as a continuing statement.

Address________ Town________ State________

Dated at________ this________ day of________

Business engaged in________

(Name of Firm or Corporation)________

Signed by________

Business Life Insurance

AND ITS IMPORTANCE TO THE CREDIT EXECUTIVE

BY L. L. JOHNSON

Vice-President, Continental Assurance Company, Chicago

■ **Mr. Johnson is one of the country's leading business life insurance experts. In this article he brings out its great significance to the credit executive and gives practical formulas for concrete analysis and application.**

BUSINESS life insurance is a comparatively recent adaption of life insurance to the needs of commerce and industry but premiums for "Business Insurance" are paid in a number of ways. The Credit Department is business insurance against undue credit losses and the cost of maintaining it constitutes premiums for that particular kind of business insurance. The inspection department in a manufacturing plant is business insurance against rejections by the buyer and loss of reputation to the seller. The repair department in a plant is business insurance against plant shutdowns and excessive overhead. The cost is a premium for the protection.

But our interest at the moment is in Business life insurance and its relationship to the general subject of Credits, and our only purpose in bringing into the scope of our discussion the foregoing analogies is to assure you that in business life insurance you are dealing with an old friend in a new guise.

The credit manager is an underwriter of business. He applies the stethoscope of vision and judgment to the heart of business and attempts to determine its possible mortality. He wants to know how long it will live and how profitably.

The financial statement and consolidated balance sheet are important, of course, and give him a certain picture just as the examining physician gets a certain quick picture of a physical risk as soon as he enters the physician's office. But in the powerful frame of an athlete may be beating an "athletic" heart and within the imposing structure of a once profitable business the bacteria of decay may already be at work.

Leon Gilbert Simon, to whom I am greatly indebted, points out in his classic "Business Insurance" that business does in many instances yield a net profit far in excess of a reasonable return on the money invested. He attributes this to management. If an institution earns 18 per cent. on its invested capital, and 6 per cent. is a reasonable return to capital, management is worth 12 per cent. to the institution. Management is the element in business that business life insurance attempts to underwrite. It is also the element which the credit manager underwrites.

What is this factor, management? Emerson has said that "an institution is but the lengthened shadow of a man". This is obviously an effort to appraise the real value of a business as "Life Values". Back of every business is man power, consisting of a dominant personality or a co-operating group of personalities, each essential to the efficiency of the group. Management is therefore human and subject to the hazards and uncertainties of life. The articles of incorporation can give perpetuity to the legal existence of a business but are powerless to invest it with perpetuity of spirit or energy.

Plant and equipment can and are insured against possible loss. Continuity of management cannot be guaranteed but money indemnity to compensate for loss can be secured. This is the primary purpose of Business Life Insurance, hence it is often called Business Interruption Insurance. It consists of a policy of life insurance on the key man in an institution, which upon his death provides funds to offset loss of profits while new management is being trained or secured. It enables a business to continue operations, which is a matter of vital interest to the credit man.

Business life insurance is essential to partnerships. It enables a surviving partner to retire the interest of a deceased partner, preventing ruinous liquidation of the business by heirs who have neither sympathetic nor sentimental interest in the business. Partnership insurance provides for continuity of the business and therefore closely concerns the credit man.

Still another function of business life insurance is to create a reserve through the accumulation of cash values to act as an emergency fund when other avenues of credit may be closed. The amount of this reserve at any particular time is of interest to the credit man. Granted then that the credit manager is interested in Business Life insurance. How much does he want to know about it in connection with a specific credit problem? Briefly he wants to know—

1. How much insurance is carried and on what lives?
2. To whom is the insurance payable?
3. What form of policy is carried—Endowment, Limited Payment, Ordinary Life or Term Insurance?
4. What are the approximate present Cash Values?
5. Is the policy assigned to anyone, and if so, to whom?

Can we measure a man's value to his business and therefore determine how much business life insurance should be carried on his life? The answer to this question depends in part on knowing how long he may reasonably be expected to live. All things being equal, a man of forty, worth $50,000 a year to his company is worth more to a company than a man of seventy earning $50,000

(*Continued on page* 54)

Should the Salesman Help the Credit

Last month the Credit Monthly symposium on pages 28 and 29 answered the question, "Should the Salesman Help the Credit Department Secure Credit Information", as told by credit executives of leading business concerns.

A. G. Prechtl, Credit Manager, Central Sales Division, American Stove Company, Cleveland, explains his company's stand in the matter:

Selling merchandise and collecting outstanding bills are two widely separated problems, and I do not think it advisable to have salesmen enter into the second part of the transaction.

In the past few years merchandising conditions have materially changed. Both the dealer and consumer have formed new buying habits that demand new standards of service, and to meet these new standards, Sales Managers have of late been planning new ways and means to overcome great obstacles.

Salesmen, therefore, have special problems or barriers to break through in these days of intensive salesmanship. Their main objective is to sell merchandise, and they feel that it is the duty of the Credit Manager to see that the merchandise is paid for.

Some Salesmanagers, however, have the mistaken idea that salesmen should collect such accounts and thereby increase their sales volume. This system was tried out by one of our Eastern Sales Offices, and found very unsatisfactory. The results indicate that after the account was turned over to the Credit Department, the customer felt that he would be allowed three or four more weeks for settlement before any insistence or pressure would be brought to bear in the matter. In the meantime, other concerns were receiving better recognition of their sales terms and as an ultimate result repeat orders, while we held the largest unpaid account, and finally were forced to use attorneys' assistance in making collection.

A recent survey was made of the Salesmens' opinion regarding assistance in collecting accounts, and the general opinion is that they dislike to talk to their customers about payment for merchandise, feeling that it may spoil their prospects of obtaining any orders during that call.

Another point to consider is that a well written letter from the credit department commands more respect for sales terms than can possibly be obtained through a conversation with the customer by the salesman.

The majority of our customers are visited by our Salesmen only every four or six weeks, and letters from the Credit Manager are therefore the most successful medium for collection activities. Furthermore, they act as a permanent record of credit transactions, offer legal protection in the form of documentary evidence in the event of legal action.

The customer receiving a letter from the Credit Manager usually has more respect for the request, visualizes an individual other than the Salesman with whom he is dealing, and knows that the factory or company he is doing business with has an organization with a distinct and separate department for handling collections.

T. S. Clark, Credit Manager, General Tire & Rubber Company, Akron, favors this practice:

There are two logical reasons why the salesman should co-operate in the collection of delinquent accounts.

1—In practically every case, a delinquent account was sold in the first place by a salesman who recommended the account for reasons that he felt to be sound. If his judgment was correct, then he should be the first one to vindicate it. If his judgment was poor, then he should be given an opportunity to learn something from the experience. In our organization we try constantly to develop our individual salesmen to a point where they can take over larger responsibilities. They certainly cannot equip themselves for these responsibilities without acquiring a working knowledge of what constitutes a good or bad credit risk and what can be done to correct a bad one.

2—The present day problem of distributing costs answers from an economical standpoint the question of whether the salesman should help the Credit Department in the collection of past due accounts. There is no reason why any man should go over a territory one day to sell an account and another man go over it the next day for the sole purpose of collecting it in other than an exceptional instance.

H. E. Storm, General Credit Manager, The Fairmont Creamery Company, Omaha, says:

I am convinced that in the business of distributing Dairy products, the salesman should share the responsibility of collecting past due accounts. That has always been our policy and we know that it is productive of quick turnover in Accounts Receivable. Our salesmen see their customers regularly, usually once a week, and have splendid opportunities to sell them the right ideas relative to terms and regular payments.

Our experience indicates that the best salesman is usually the best collector. He realizes that his sales can never be better than the condition of his accounts permits. We also know that most customers prefer to deal with the salesman entirely.

Our policy requires close co-operation and weekly check-ups with each salesman. There are, of course, special cases which no salesman can handle successfully, but, generally speaking, our sales-

Department Collect Past-Due Accounts?

There is probably no single phase of co-operation between the credit and sales departments that presents so many difficult angles as the collection of past-due accounts by salesmen. This symposium gives consideration to both sides of this problem.

men are expected to sell goods and get the money for what they sell. Why shouldn't they?

Milton Oser, I. M. Friedman & Co., Inc., New York, says:

It is very necessary for the salesman to know which of his accounts are past due because in some cases he is sufficiently friendly with them to be of great assistance to the credit department in getting the money. There are some instances, however, where the salesman is too timid to ask for the money. Since he is afraid to antagonize his customer, he allows the account to run very much slower than the credit manager would. For this reason we keep our salesman advised as to their past due accounts but we choose those that we will ask them to collect, and handle the others ourselves.

M. J. Smith, Citrus Products Co., Chicago replies:

I look at this question from three viewpoints,—that of the expanding business organization, intent on keeping its Accounts Receivable at a minimum figure and still maintain friendship with all its customers,—that of the representative and that of the customer.

Taking the first into consideration; show me the progressive business house which does not concentrate 100 per cent. on consistent sales, for is this not the root of all progress? With this in mind, it is necessary that all salesmen be equipped primarily with all information on their product, how to sell it, how to show it, how to beat the competitor. Is he therefore to stand ready to combine this salesmanship with collection work, always prepared to pop out a statement of account when calling on a customer when that particular statement happens to be overdue? I answer in the negative.

Consider the second viewpoint; the viewpoint of the customer. He has many products to choose from, ordinarily. Would he not prefer that the salesman approach him from a sales angle alone? Nine times out of ten he is immediately prejudiced against a "personal" collector of his account and this materially affects his buying.

And how does the salesman feel about it? How do salesmen, as a whole, feel about their company's credit Departments? Sometimes you find them willing to co-operate to the utmost,—assisting in the rather difficult collections, which correspondence cannot effect. You will find them oftentimes considering as a part of their work the untangling of smaller controversies which have arisen, smoothing out the wrinkles, reporting the result to the Credit Department and perhaps enclosing an order. And then too, you find them, all too often, finding fault with this central department,—assuming that they believe the Credit Manager *enjoys* holding orders on new accounts until sufficient credit information has been received,—*enjoys* writing first entreating, then demanding, then threatening letters to their customers for money.

I maintain that a well organized credit department with a efficient system of correspondence can lick any flock of Accounts Receivable that I have ever seen,—providing conditions in the territories of collection are favorable. I contend that salesmen are to act on collections *only* when accounts are found more easily collectible by salesmen,—in cases when it is only a question of turning the account over to an attorney or letting a salesman try his hand,—and in cases where it is possible for the salesman to contrive in a diplomatic manner to get a check on a stubborn account.

J. P. Wilson, Credit Manager, General Electric Supply Corporation, Chicago, Says, "Yes!"

"Should the salesmen help the Credit Department in the collection of past-due accounts?" The answer is "Yes."

We have always used our salesmen in helping us on collections, for we believe that in most instances the salesman, through personal acquaintance with the customer, is able to secure a check and at the same time an order for material.

Inasmuch as the salesman has to call on this customer regularly at certain intervals, and further credit would not be approved until the pastdue account has been paid, we believe it is to his interest to help the Credit Department collect the account.

This method is being followed and without burdening the salesman or jeopardizing the account, and we feel that we have been successful, for the system has worked satisfactorily, due in a great measure, to the co-operation of the Sales Department and Credit Department.

M. E. Bretzfield, Credit Manager, Cohn-Hall-Marx Company, New York, states his company's policy:

We do not believe it a good policy to have our salesmen assist us with reference to the collection of Accounts Receivable, as a general rule.

However there are exceptional cases where the salesman is particularly friendly with an account or where the account is distantly located where we find it necessary to request the assistance of our representatives.

Nation-Wide Collection and Sales Conditions

WHAT THEY ARE AT PRESENT
THE OUTLOOK FOR THE NEAR FUTURE

CREDIT MONTHLY offers its seventh monthly survey of Collections and Sales Conditions. This survey is based upon reports from cities throughout the country that are trade centers for their surrounding areas. The reports are the results of the daily experience of the leading wholesaling and manufacturing concerns operating from these trading centers. The two questions "Are people buying?" and "Are they paying?", are perhaps the most direct and immediate reflection of daily business conditions in the country.

These reports have been tabulated so that you may see at a glance how conditions are reported in various cities in each State. You may also see at a glance what cities report a condition of "Good, Fair and Slow." At the end of this summary you will find valuable explanatory comments that have been sent in to CREDIT MONTHLY. These additional comments may be pertinent to your interpretation of collection conditions and sales conditions in the cities listed.

■ **This is the seventh monthly report of Collection Conditions and Sales Conditions to be assembled and published by Credit Monthly.**

		COLLECTIONS			SALES		
State	**City**	**Good**	**Fair**	**Slow**	**Good**	**Fair**	**Slow**
Alabama	Montgomery			Slow			Slow
Arizona	Phoenix			Slow			Slow
Arkansas	Little Rock			Slow			Slow
California	Los Angeles		Fair			Fair	
	Oakland		Fair			Fair	
Colorado	Denver		Fair			Fair	
	Pueblo		Fair			Fair	
Connecticut	New Haven		Fair			Fair	
	Waterbury		Fair			Fair	
Dis't of Col.	Washington		Fair			Fair	
Florida	Tampa		Fair		Good		
Georgia	Atlanta		Fair				Slow
	Macon		Fair			Fair	
Idaho	Boise		Fair			Fair	
Illinois	Galesburg		Fair			Fair	
	Peoria		Fair			Fair	
	Quincy			Slow			Slow
	Rockford		Fair			Fair	
Indiana	Fort Wayne		Fair			Fair	
	Indianapolis			Slow		Fair	
	South Bend			Slow		Fair	
	Terre Haute		Fair				Slow
Iowa	Burlington		Fair			Fair	
	Cedar Rapids	Good			Good		
	Davenport			Slow		Fair	
	Des Moines		Fair		Good		
	Ottumwa		Fair		Good		
	Sioux City		Fair			Fair	
	Waterloo		Fair		Good		
Kansas	Wichita		Fair			Fair	
Kentucky	Lexington			Slow		Fair	
	Louisville		Fair			Fair	
Louisiana	New Orleans			Slow			Slow
	Shreveport		Fair			Fair	
Maryland	Baltimore		Fair			Fair	

State	City	COLLECTIONS Good	COLLECTIONS Fair	COLLECTIONS Slow	SALES Good	SALES Fair	SALES Slow
Massachusetts	Boston		Fair			Fair	
	Springfield			Slow			Slow
	Worcester		Fair			Fair	
Michigan	Detroit			Slow			Slow
	Flint			Slow			Slow
	Grand Rapids			Slow		Fair	
	Jackson			Slow			Slow
	Saginaw		Fair			Fair	
Minnesota	Duluth		Fair			Fair	
	Minneapolis		Fair			Fair	
	St. Paul		Fair			Fair	
Missouri	Kansas City			Slow		Fair	
	St. Joseph		Fair			Fair	
	St. Louis		Fair				Slow
Montana	Billings		Fair				Slow
	Great Falls		Fair			Fair	
	Helena			Slow		Fair	
Nebraska	Omaha		Fair			Fair	
New Jersey	Newark		Fair			Fair	
New York	Albany		Fair			Fair	
	Buffalo		Fair			Fair	
	Elmira			Slow		Fair	
	New York		Fair			Fair	
	Rochester		Fair			Fair	
	Syracuse		Fair			Fair	
	Utica		Fair			Fair	
North Carolina	Charlotte		Fair				Slow
North Dakota	Fargo		Fair			Fair	
	Grand Forks	Good			Good		
Ohio	Cincinnati		Fair			Fair	
	Cleveland			Slow			Slow
	Toledo			Slow			Slow
	Youngstown			Slow			Slow
Oklahoma	Oklahoma City			Slow			Slow
Pennsylvania	Allentown		Fair			Fair	
	Altoona			Slow			Slow
	Harrisburg			Slow		Fair	
	Johnstown		Fair			Fair	
	New Castle			Slow			Slow
	Pittsburgh		Fair			Fair	
	Reading			Slow		Fair	
	Scranton		Fair			Fair	
	Wilkes-Barre			Slow		Fair	
Tennessee	Chattanooga		Fair				Slow
	Memphis		Fair			Fair	
	Nashville			Slow		Fair	
Texas	Austin	Good			Good		
	Dallas		Fair			Fair	
	Fort Worth			Slow			Slow
	San Antonio		Fair			Fair	
	Wichita Falls			Slow			Slow
Utah	Salt Lake City		Fair			Fair	
Virginia	Bristol		Fair			Fair	
	Norfolk		Fair			Fair	
	Richmond		Fair			Fair	
	Roanoke			Slow			Slow

See next page for Comments on Collections and Sales

		COLLECTIONS			SALES		
State	**City**	**Good**	**Fair**	**Slow**	**Good**	**Fair**	**Slow**
Washington	Bellingham		Fair			Fair	
	Seattle		Fair			Fair	
	Spokane		Fair				Slow
	Tacoma		Fair			Fair	
West Virginia	**Bluefield**		Fair			Fair	
	Charleston			Slow			Slow
	Clarksburg		Fair			Fair	
	Huntington	Good				Fair	
	Wheeling			Slow		Fair	
Wisconsin	**Fond du Lac**			Slow			Slow
	Milwaukee		Fair		Good		
	Oshkosh			Slow			Slow

▪▪ COMMENTS ON COLLECTIONS AND SALES CONDITIONS ▪▪

ARIZONA: There is no great improvement in conditions, both sales and collections having been reported as "Slow", but building is increasing and sales are on the upward trend.

ARKANSAS: A slight improvement in collections over last month's report has been noted, but sales have not improved, the corn crop having been almost a complete failure.

CALIFORNIA: Collections and Sales are rated "Fair". An improvement is reported in all lines, except building.

COLORADO: Business in general appears to be gradually improving. Crops, cattle and sheep are exceptionally good and more optimism is shown this month than heretofore.

CONNECTICUT: Conditions show a general improvement. Many factories have reported an increase of orders which should help both collections and sales. Merchants report increasing sales although the unusual warm weather for this season slowed up the purchasing of winter apparel.

INDIANA: Our secretary from South Bend reports: "No marked change in sales or collections, but I believe we can see a little greater confidence among business men that the depth of the depression has been passed and that things are shaping themselves for a gradual recovery." Equally encouraging reports have been received from other cities in Indiana, each emphasizing the marked improvement in conditions.

LOUISIANA: Collections and sales have improved somewhat but have not reached their Fall standard. Merchandise stocks in the retail stores are lower than usual but under existing conditions, there is but little incentive for the country merchant to buy. His customers already owe him more than they can pay and he in turn owes more than he can pay. Some merchants are already asking for time or extensions while from some, there is little hope of receiving payment even if they are given time. The general outlook for this section is anything but bright and it is thought that there will be a good many failures.

MICHIGAN: A slight improvement in general conditions is reported by several cities in Michigan and it is felt that business will continue on the upward trend.

MINNESOTA: Both collections and sales are reported "Fair". An optimistic tone in collections and sales is noted.

(*Continued on page 54*)

CHANGES SINCE LAST MONTH

State	City	Collections	Sales
Colorado	Denver		Good to Fair
	Pueblo	Slow to Fair	
Connecticut	New Haven		Slow to Fair
	Waterbury	Slow to Fair	
Dis't. of Col.	Washington	Slow to Fair	
Florida	Tampa	Good to Fair	Fair to Good
Illinois	Peoria	Slow to Fair	Slow to Fair
	Rockford	Slow to Fair	Slow to Fair
Indiana	Indianapolis	Fair to Slow	Slow to Fair
	Terre Haute	Slow to Fair	
Iowa	Burlington	Slow to Fair	Slow to Fair
	Cedar Rapids	Fair to Good	
	Davenport	Fair to Slow	
	Des Moines		Fair to Good
	Ottumwa	Slow to Fair	Fair to Good
Louisiana	New Orleans		Fair to Slow
	Shreveport	Slow to Fair	Slow to Fair
Massachusetts	Springfield		Fair to Slow
Michigan	Detroit	Fair to Slow	Fair to Slow
	Saginaw		Slow to Fair
Missouri	Kansas City		Slow to Fair
Montana	Billings		Fair to Slow
	Great Falls	Slow to Fair	
	Helena	Fair to Slow	
New York	Utica	Slow to Fair	Good to Fair
North Carolina	Charlotte	Slow to Fair	
Pennsylvania	Johnstown		Slow to Fair
	Pittsburgh		Slow to Fair
	Reading		Good to Fair
	Scranton	Slow to Fair	Slow to Fair
Tennessee	Chattanooga	Slow to Fair	
	Memphis	Slow to Fair	Slow to Fair
Texas	Austin	Fair to Good	Fair to Good
	Ft. Worth	Fair to Slow	Fair to Slow
	Wichita Falls		Fair to Slow
Virginia	Roanoke	Fair to Slow	
Washington	Bellingham	Slow to Fair	Slow to Fair
	Seattle	Slow to Fair	
West Virginia	Bluefield	Slow to Fair	
	Charleston		Fair to Slow
	Wheeling		Slow to Fair
Wisconsin	Fond du Lac		Fair to Slow
	Milwaukee		Fair to Good
	Oshkosh	Fair to Slow	

"Changing Conversation into Conservation"

The Flying Squadron and Economic Credit Council

ON page seven of this issue President Fraser of the National Association of Credit Men analyzes the one billion dollar credit waste that business is staggering under each year. He points out the consequences and effects that are sure to follow unless something is done about this billion dollar waste. Unfortunately, there is always a great deal of talk about such situations but virtually nothing is done about them.

But now, probably for the first time in American economic history, talk and conversation about credit waste have been crystallized into a definite, concrete movement against it. *Conversation* has been changed into *conservation*. Credit conservation is one of the most imperative needs of business today. The leakage of bad debt losses must be plugged. Fraudulent bankruptcies must be prevented. The credit machinery of the country must be kept well oiled and functioning without friction and grating. Credit waste is rust on the credit machinery of the country that must be removed.

The Flying Squadron and Economic Credit Council has been formed to set in motion an organized movement against this credit waste and inefficiency. The Council will do those things about which there has been so much conversation and so little action. It is comprised of executives who are members of the National Association of Credit Men and who, upon the enlistment of their names, definitely accept responsibilities along prescribed lines and guarantee their co-operation with the Executive Manager of the National Association of Credit Men in developing a greater esprit in the credit field and in fostering sounder and more efficient credit methods, practices and programs.

WINGS THAT ARE WON

Those members of the Flying Squadron and Economic Credit Council who have won their wings by bringing in a new Association member are listed below:

William Tonks, The Union Trust Company, Cleveland.

Lister T. Watts, Standard Oil Company of New Jersey.

L. C. Lyon, The Gulf Refining Co., Pittsburgh.

C. A. Murray, United States Fidelity and Guarantee Company, Syracuse.

John W. Fitzgerald, William Iselin & Co., New York City.

A. E. Domser, G. W. Van Slyke & Horton, Albany.

L. F. Bomhoff, 209 Steward Ave., Jackson.

C. R. Haemsch, Tennessee Furniture Corporation, Chattanooga.

It is the purpose of this Council, in co-operation with Executive Manager Stephen I. Miller, to study economic weaknesses in our credit system and to make recommendations for improvements that will help remove these weaknesses. A specific program is under way that will carry through the remaining months of 1930 and down through 1931 to the Boston Convention, where the Economic Credit Council will meet and climax its work with special activities. The progress of this program will be announced each month in CREDIT MONTHLY.

Every executive who enlists in the Flying Squadron and Economic Credit Council may *win his wings* by bringing a new member into the National Association of Credit Men. All memberships secured by members of the Squadron and Council carry with them the responsibility of acting as a patron to each new member for a period of one year, familiarizing the new member with the Association and its services and making sure that each new unit of business co-operation is directed into channels that will aid greatly in reducing our annual credit waste.

No finer spirit has ever been evidenced than that which is being shown by the busy executives who are enlisting in the Flying Squadron and Economic Credit Council. Their responsibilities in connection with the Council are significant. Acting as a patron to each new Association member secured is not a task of small dimensions. The results, both direct and indirect, that will be achieved by the Council are certain to be of far reaching benefit and importance to the business of this country. Objectives of this kind are attained only through a breadth of vision on the part of business men, their unselfish willingness to co-operate and serve and their ability to recognize the importance of a movement of this nature.

ENROLLMENT OF SQUADRON AND COUNCIL

As this issue goes to press, 329 have enlisted in the Flying Squadron and Economic Credit Council. Exclusive of those listed who have already won their wings are the following who have enrolled their names in the Council and who are eligible to win their wings by bringing in one new Association member:

Griswold Adams, Highland Park State Bank, Highland Park, Mich.
William K. Adams, First Wisconsin National Bank, Milwaukee.
E. R. Ailes, Detroit Steel Products Company, Detroit.
Jas. W. Allen, McKesson-Crowdus Drug Co., Dallas.
G. A. Altendorf, Giant Grip Mfg. Company, Oshkosh.
C. DeL. Alton, Jr., The J. B. Williams Company, Glastonbury.
S. J. Anderson, The Quaker Oats Company, Philadelphia.
S. M. Anderson, Ass't Treas., Neal & Hyde, Inc., Syracuse.
T. Coleman Andrews, Pace, Gore & McLaren, Richmond.
Samuel Ardrem, Jr., Comptroller, National Association of Credit Men.
R. B. Arnett, Eskew, Smith & Cannon, Charleston.
Geo. I. Ashton, St. Paul Foundry Company, St. Paul.
F. B. Atwood, Forman, Ford & Co., Minneapolis.
Richard T. Baden, Holland, Baden & Ramsey, Baltimore.
H. C. Bainbridge, C. T. Bainbridge's Sons, Brooklyn.
Florence E. Banks, (Miss) Los Angeles Soap Co., Los Angeles.
Henry G. Barbee, Barbee-Hayes Co., Inc., Norfolk.
W. G. Barclay, Barclay, Ayers & Bertsch Co., Grand Rapids.
Howard F. Barker, Phoenix Mutual Life Insurance Co., Providence.
J. W. Barr, The Quaker Oats Company, New York City.
W. E. Beamer, A. V. Love Dry Goods Co., Seattle.
W. R. Beardsley, Tilden Produce Co., St. Paul.
Bruce Bennitt, Central Divisional Manager, N. A. C. M.
Wm. Bishop, Jr., Graton & Knight Co., Worcester.
C. N. Bevan, The Woolson Spice Company, Toledo.
F. W. Black, Western Meat Company, South San Francisco.
J. A. Bond, Standard Oil Co. of California, San Francisco.
W. M. Bonham, C. M. McClung & Co., Knoxville.
W. H. Bowles, Barker-Jennings Hdwe. Corp., Lynchburg.
L. J. Bradford, The Lunkenheimer Co., Cincinnati.
J. T. Brammann, U. S. Supply Company, Omaha.
Irvin S. Brant, Irvin S. Brant, Inc., Reading
M. J. Brew, Waukesha Washed Sand & Gravel Co., Milwaukee.
B. F. Brewer, Veihl-Crawford Hdwe. Co., Inc., Fort Worth.
John T. Brown, Jr., Hajoca Corporation, Philadelphia.
H. H. Brubaker, L. A. Young Spring & Wire Corp., Detroit.
E. C. Brunst, Gruen Watch Makers Guild, Cincinnati.
A. C. Burchett, Bank of Commerce & Trust Company, Memphis.
C. R. Burnett, American Oil & Supply Co., Newark.
L. B. Bush, Gate City Hat Company, Omaha.
J. P. Byrne, The Sherwin-Williams Co., Kansas City.
W. O. Carey, Isadore Siegel, Newark.
Miss D. I. Carrington, L. J. Mueller Furnace Co., Milwaukee.
W. L. Carnahan, Colgate-Palmolive-Peet Co., Kansas City.
H. D. Carter, Dougherty-Little Redwine Co., Atlanta.
O. W. Chaffee, The Berger Mfg. Co., Canton.
Chas. W. Chesley, Charleston Electrical Supply Co., Charleston.
Herbert E. Choate, Choate Investment Co., Atlanta.
H. G. Clark, 124 Edgehill Road, Syracuse, N. Y.
H. W. Clausen, The C. D. Osborn Co., Chicago.
Geo. J. Clautice, Baltimore Ass'n. of Commerce, Baltimore.
G. A. Coffey, Fox-Coffey-Edge Co., Dallas.
Miss Genevieve M. Coleman, Pulver Co., Inc., Rochester.
Alvah Conner, American Refining Properties, Wichita Falls.
W. L. Conner, Mack Miller Candle Company, Syracuse.
J. J. Cook, Johnson Biscuit Company, Sioux City.
F. M. Couch, Blake Moffitt & Towne, Los Angeles.
H. S. Cowan, Armour & Company, Kansas City.
G. A. Cowing, Crane Company of Minnesota, Fargo.
Jas. S. Cox, W. C. Ritchie & Co., Chicago.
C. L. Cragin, Cragin & Co., Seattle.
A. D. Crummett, Virginian Electric Inc., Charleston.
H. L. Cummings, Westinghouse Electric Supply Co., Inc., St. Paul.
C. J. Davis, Happ Brothers Company, Macon.
I. B. Davies, Bradley Knitting Company, Delavan.

(For continuation of list see next page)

George DeCamp, Federal Reserve Bank, Cleveland.
R. J. Dempsey, Weyenberg Shoe Mfg. Company, Milwaukee.
Chas. H. Devlin, The Arcady Press, Portland.
B. Frank Dew, State-Planters Bank & Trust Company, Richmond.
H. S. Dickey, Moore-Langen Printing & Publishing Co., Terre Haute.
J. W. Dickson, Texas Paper Co., Dallas.
O. S. Dibbern, Western Divisional Mgr., N.A.C.M.
T. J. Digan, United States Steel Products Co., New York.
D. S. Dodson, The McLendon Hardware Co., Inc., Waco.
Harry C. Dodson, Orr Iron Co., Inc., Evansville.
Edgar M. Docherty, Wm. C. Greene Co., Providence.
L. D. Duncan, B. F. Avery & Sons, Louisville.
L. T. Dysart, Graybar Electric Co., Inc., Dallas.
J. W. Durrett, First National Bank, Chattanooga.
C. M. Edwards, Louden Machinery Co., Inc., Albany.
F. W. Edwards, Bush-Krebs Company, Louisville.
H. E. Engstrom, G. Sommers & Co., St. Paul.
O. T. Erickson, The Carter's Ink Company, Boston.
Newman Essick, Essick & Company, Los Angeles.
C. Fallon, Frazer Paint Company, Detroit.
P. C. Fewell, The Morten Davis Co., Dallas.
Paul Fielden, Norton Co., Worcester.
Ralph T. Fisher, American Trust Co., Oakland.
E. H. Fletcher, Staub, Fletcher & Van Tifflin, Detroit.
E. P. Foley, Republic Steel Corp., Youngstown.
J. C. Fowler, Bowman Hat Co., Knoxville.
B. Frank Fox, Lamont Corliss & Co., New York.
William Fraser, J. P. Stevens & Co., Inc., New York.
R. V. Free, The National Bank of Commerce, Detroit.
C. E. French, Cadillac Machinery Co., Detroit.
H. T. Fulton, The Ainsworth Shoe Co., Toledo.
Mrs. G. D. Fultz, McKesson-Midwest Drug Co., Billings.
E. N. Furber, Central Supply Company, Worcester.
Miss Celia Gassen, Garfinkel & Ritter, New York.
L. B. Gibbs, J. M. Bennett Co., Minneapolis.
C. H. Gimar, L. H. Kurtz Co., Des Moines
J. J. Glynn, Turner Glass Sales Corp., Terre Haute.
Miss M. Goetschius, Giant Grip Manufacturing Company, Oshkosh.
A. J. Goldwater, Stewart Dawes Shoe Co., Inc., Los Angeles.
David E. Golieb, Einstein-Wolff Co., New York.
S. F. Gorbett, The Jury Rowe Company, Jackson.
G. T. Graham, George Graham & Co., Oshkosh.
C. O. Greenlee, Purity Baking Co., Charleston, W. Va.
H. C. Gregory, J. L. Clark Mfg. Co., Rockford.
W. C. Grimmer, Joannes Brothers Company, Green Bay.
George J. Gruen, Gruen Watch Makers Guild, Cincinnati.
George Grundmann, Albert Mackie Co., Inc., New Orleans.
Spencer C. Gunn, A. P. W. Paper Co., Albany.
Miss Lillian M. Guth, Plaza Music Company, New York.
Lowell H. Gypson, Albany Credit Service, Inc., Albany.
R. H. Hackett, The Youngstown Indicator, Youngstown.
Richard D. Hall, The Baker Hotel, Dallas.
Miss E. M. Halleran, Rochester Box & Lumber Co., Rochester.
P. P. Hanley, Grinnell Co., Atlanta.
W. C. Hanson, E. G. Schafer Co., Washington.
Joe T. Hardeman, J. T. Hardeman Hat Co., Seattle.
Henry W. Hardy, Libby, McNeill & Libby, Chicago.
H. B. Harmon, Smith, Lichty & Hillman Co., Waterloo.
Miss Jessie M. Harpham, A. P. W. Paper Co., Albany.
A. B. Harris, The Otis Hidden Co., Inc., Louisville.
Edward L. Harris, Swift & Co., Boston.
W. L. Harris, Perfection Stove Co., Inc., Kansas City.
Miss Alleen Harrison, Tafel Electric Co., Louisville.
F. O. Hartung, Berkowitz Envelope Co., Kansas City.
Fred Haskel, Detroit Stamping Co., Detroit.
F. Elmer Havens, Hope Webbing Co., Inc., Providence.
J. J. Hayes, Westinghouse Electric & Manufacturing Co., Seattle.
R. Ray Head, Maloney-Davidson Co., Inc., Louisville.
W. J. Henderson, Closset & Devers, Portland, Ore.
Henry H. Heimann, The Kawneer Co., Niles.
Clay Herrick, The Guardian Trust Co., Cleveland.
F. G. Hester, Weidlocher & Sons, Springfield, Ill.
Jas. H. Hickman, Knoxville Paper Box Co., Inc., Knoxville.
E. J. Hoff, The Central Trust Company, Cincinnati.
G. W. Hoffman, United States Glass Co., Pittsburgh.
J. W. Hoffman, Forman, Ford & Co., Minneapolis.
C. L. Holman, Wilson Brothers, Chicago.
Howard S. Hopkins, Belcher & Loomis, Providence.
Edward T. Holland, The Ocean Accident & Guarantee Corp., Ltd., New York.
E. G. Holmes, C. P. Lesh Paper Co., Indianapolis.
I. F. Hoyt, Eastman Kodak Co., Rochester.
Miss Mary A. Huddy, E. W. Edwards & Son, Rochester.
Frank S. Hughes, Federal Reserve Bank, Boston.
Allan P. Hull, Tower Savings Bank, Seattle.
H. H. Humphrey, Brown Durrell Co., Boston.
W. R. Humphreys, Integrity Trust Co., Philadelphia.
Miss Mary C. Hunt, Red Spot Paint & Varnish Co., Evansville.
R. G. Hunter, Littlefield & Steere Co., Knoxville.
Stanley Hunter, Sperry Flour Co., Portland.
E. B. Hutcheck, Old National Bank & Union Trust Co., Spokane.
E. H. Jaynes, The Cleveland-Cliffs Iron Co., Cleveland.
Warren A. Jefferds, American Lava Corp., Chattanooga.
G. A. L. Johnson, Klinkerfues Bros. Co., St. Paul.
E. S. Jones, Marquette National Bank, Minneapolis.
Ralph B. Jones, C. A. Goodnow Shoe Co., Boston.
J. M. Judson, Sinclair Refining Co., St. Louis.
Wm. H. C. Just, Hood Rubber Products Co., Inc., Providence.
Clarence Kaeber, The Electric Storage Battery Co., Philadelphia.
Hon. John D. Karel, Mayor of Grand Rapids, Grand Rapids.
Harold H. Kase, Taylor Instrument Companies, Rochester.
E. J. Keefe, Bryan-Keefe & Co., Tampa.
C. V. Keirstead, Gordon & Ferguson, Inc., St. Paul.
G. Kenneth Keller, The King Mfg. Co., Toledo.
C. H. Kelley, Kelley-How-Thomson Co., Duluth.
F. G. Kellogg, Morris Sanford Co., Cedar Rapids.
Jas. H. Kepper, Hibernia Bank & Trust Co., New Orleans.
W. W. Kerr, Chicago Assn. of Credit Men, Chicago.
F. H. Kidd, Graham-Brown Shoe Co., Dallas.
Ernest I. Kilcup, Davol Rubber Co., Providence.
A. A. Kilmer, John L. Morgan Co., Binghamton.
C. F. Kirtley, Cook Paint & Varnish Co., Kansas City.
C. P. King, A. M. Castle & Co., Seattle.
E. W. Klempnauer, Hansen Glass & Paint Co., Sioux City.
G. C. Klippel, Van Camp Hardware & Iron Co., Indianapolis.
W. F. H. Koelsch, Chase National Bank, New York.
R. C. Kramer, American Lady Corset Co., Inc., Detroit.
E. H. Krohn, Albert Mathias & Co., El Paso.
F. A. LaBudde, First National Bank, Oshkosh.
Miss Irene Lamm, Myles Salt Co., Ltd., New Orleans.
M. C. Lane, Knapp & Spencer Co., Sioux City.
J. A. Langan, Mooney-Mueller-Ward Co., Indianapolis.
O. S. Larkby, The Edwards Manufacturing Co., Inc., Cincinnati.
A. A. Leath, Tomlinson Co., Inc., Richmond.
S. W. Leaver, Inter-Mountain Electric Co., Salt Lake City.
E. G. Leihy, Blumauer-Frank Drug Co., Portland.
A. N. Levin, Levin Bros., Terre Haute.
R. W. Lindeke, The First National Bank, St. Paul.
W. C. Lovejoy, Fulton Bag & Cotton Mills, Atlanta.
Albert B. Loye, 230 Sixth Street North, Minneapolis.
Wm. Lundberg, Stone-Ordean-Wells Company, Billings.
H. Guy Lyon, Robinson-Pettet Co., Inc., Louisville.
Jess E. McClain, The Joseph R. Peebles' Sons Co., Cincinnati.
F. B. McComas, McComas Dry Goods Co., Los Angeles.
David H. McCooe, Loose-Wiles Biscuit Co., Kansas City.
J. F. McGrath, Loose-Wiles Biscuit Co., Minneapolis.
James McQueeny, Loose-Wiles Biscuit Co., Kansas City.
W. L. MacKay, Stone-Ordean-Wells Co., Duluth.
C. D. Maclaren, Jr., Northwestern Jobbers Credit Bureau, Inc., St. Paul.
Miss Mina Markle, Sander & Recker Furniture Co., Indianapolis.
A. A. Martin, Momsen-Dunnegan-Ryan Co., El Paso.
C. C. Mathews, The Red Star Milling Co., Wichita.
Mrs. Helen A. Maycrink, International Paper Co., New York.
C. E. Mann, The Munsingwear Corporation, Minneapolis.
J. L. Medler, Universal Atlas Cement Co., New York.
C. E. Meek, Chemical Bank & Trust Co., New York.
J. D. Meek, General Electric Supply Corp., Indianapolis.
E. R. Mellen, Weston Electrical Instrument Corp., Newark.
R. S. Merrill, A. E. Nettleton Co., Syracuse.
Jacque L. Meyers, Michaels Stern & Co., Rochester.
J. W. Meriam, The Lincoln Electric Co., Cleveland.
W. C. Metzger, American Sales Books Co., Ltd., Elmira.
Lewis Milam, The Williams Hardware Co., Clarksburg.
Miss Bertha T. Miller, Roach-Fowler Co., Kansas City.
C. F. Miller, Northern Jobbing Co., Inc., St. Paul.
John Miller, Norton Co., Worcester.
Stephen I. Miller, Executive Manager, N. A. C. M.
V. A. Miller, 51 Leavenworth St., Waterbury.
P. M. Millians, Ernest L. Rhodes Co., Inc., Atlanta.
C. C. Minnich, Lay Packing Co., Inc., Knoxville.
F. V. Moise, Whitney National Bank, New Orleans.
H. G. Moore, 547 Moss Ave., Peoria.
L. Motz, Armour & Co., Sioux City.
F. M. Murchison, The First National Bank, El Paso.
D. A. Murphy, City Trust Co., Indianapolis.
Arthur L. Myers, The W. H. Compton Shear Co., Newark.
O. S. Neylans, Bibb Manufacturing Co., Macon.
G. M. Nichols, The Salt Lake Hardware Co., Salt Lake City.
M. S. Noffsinger, Roanoke Paper Co., Inc., Roanoke.
J. E. Norvell, Philadelphia Association of Credit Men, Philadelphia.
J. W. Otten, Hanselmann-Johnson Co., Cincinnati.
Q. J. Papineau, Pet Milk Sales Corporation, St. Louis.
Chas. R. Parks, North American Cement Corp., Albany.
J. D. Patterson, Marshall-Wells Co., Duluth.
A. J. Peoples, The American Brass Co., Detroit.
K. B. Peasley, Northwest Hardware Co., Bellingham.
J. Roy Pierson, Thomas, Field & Co., Charleston, W. Va.
R. B. Porter, First Trust & Deposit Co., Syracuse.
W. H. Pouch, Concrete Steel Co., New York.
W. H. Preston, The American Credit-Indemnity Co., San Francisco.
Miss N. E. Quirk, The Chestnut Street Engraving Co., Inc., Philadelphia.
C. B. Rairdon, Owens-Illinois Glass Co., Toledo.
L. D. Ramsey, F. Brody & Sons Co., Des Moines.
F. H. Randel, The Randel Co., Cleveland.
H. P. Reader, Cannon Mills, Inc., New York.
C. J. Renard, F. Hurlbut Co., Green Bay.
R. B. Roantree, Benedict Mfg. Co., East Syracuse.
L. H. Robinson, White Line Transfer & Storage Co., Des Moines.
Frank D. Rock, Armour & Co., San Francisco.
A. T. Rickards, Sharp & Dohme, Philadelphia.
J. M. Rust, Union Oil Co., Los Angeles.
R. M. Ryan, RCA Radiotron Co., Inc., Harrison.
H. S. Sanders, Eastern Tablet Corp., Albany.
J. H. Scales, Belknap Hardware & Mfg. Co., Louisville.
Miss Rose C. Schackmann, Charles Scribner's Sons, Chicago.
E. K. Scherer, Evansville Metal Bed Co., Evansville.
F. O. Schuette, Kellogg-Citizens National Bank, Green Bay.
H. A. Sedgwick, Marshall-Wells Co., Duluth.
R. S. Shannon, Weyenberg Shoe Mfg. Co., Milwaukee.
Edgar Simmonds, Hanovia Chemical & Mfg. Co., Newark.
F. M. Sims, The Goodyear Tire & Rubber Co., Inc., Indianapolis.
V. E. Simms, American Sash & Door Co., Kansas City.
Edward M. Skinner, Wilson Brothers, Chicago.
E. R. Smith, Jackson City Bank & Trust Co., Jackson.
Freas B. Snyder, Freas B. Snyder & Co., Upper Darby.
H. W. Sparrenberger, Oswald-Sparrenberger Co., Evansville.
J. W. Sprague, Janney-Semple-Hill & Co., Minneapolis.
J. A. Stack, Stern & Stern, New York.
Miss L. F. Steed, Hawthorn Coal Co., St. Louis.
J. E. Stilz, Kiefer-Stewart Co., Indianapolis.
Miss Elizabeth G. Stone, The Julius J. Bantlin Co., Cincinnati.
H. E. Storm, The Fairmont Creamery Co., Omaha.
Miss Harriett A. Straub, B. Cohen & Sons, Chicago.
F. F. Stuckert, Hansen Glove Corp., Milwaukee.
R. W. Stutler, The James & Law Co., Clarksburg.
Miss J. Sweaf, Q.R.S.-DeVry Corp., New York.
C. E. Talman, American Bank & Trust Co., Richmond.
W. E. Tarlton, Central Shoe Co., St. Louis.
I. Torgerson, Kellogg-Citizens National Bank, Green Bay.
G. G. Treat, The Bessemer Cement Corp., Youngstown.
J. H. Tregoe, Beverly Hills, Calif.
B. R. Tritten, American Stove Company, Cleveland.
C. W. Trousdale, Nineteen Hundred Corp., Binghamton.
Guy M. Truex, Innes Wholesale Furniture Co., Wichita.
J. S. Tupper, Nebraska Machinery Supply Co., Lincoln.
Edward P. Tuttle, Vernon Court Hotel, Newton.
Geo. W. Van Vorst, C. B. Van Vorst Co., Los Angeles.
R. L. Vickrey, W. S. Dickey Clay Mfg. Co., Kansas City.
A. Wagenfuehr, The Boatmen's National Bank, St. Louis.
A. A. Wainwright, Gorham Mfg. Co., Providence.
F. S. Walden, Strevell-Paterson Hdwe. Co., Salt Lake City.
Frank M. Weikal, A. J. Logan Co., Pittsburgh.
W. L. Weir, Ridenour-Baker Mercantile Co., Oklahoma City.
G. Harold Welch, New Haven Bank, N.B.A., New Haven.
H. L. Welch, First National Bank, St. Louis.
C. W. White, Logan Co., Inc., Louisville.
S. J. Whitlock, 5744 Midway Park, Austin Station, Chicago.
J. G. Wilcox, Wilcox-Nelson Co., Austin.
John H. Wiles, 811 Commerce Bldg., Kansas City.
L. J. Wilhoite, Southern Dairies, Inc., Chattanooga.
Miss Mabel S. Wilke, Continental Scale Works, Chicago.
W. A. Williams, Williams & Reed, Inc., Richmond.
W. Gordon Williams, Williams Bros. & Co., Wilkes-Barre.
F. E. Wilson, The Union Wholesale Lumber Co., Youngstown.
W. W. Wilson, Dannenberg-Waxelbaum Co., Macon.
F. I. Wines, E. B. Wines Co., Inc., Tacoma.
G. J. Wissink, Williams-Kimp Furniture Co., Grand Rapids.
J. F. Wood, Richmond Dry Goods Co., Inc., Richmond.
A. T. Woodward, The United States Shoe Co., Cincinnati.
Geo. Wright, Jr., Miller Mfg. Co., Inc., Richmond.
Horace V. X. Wright, Tacoma Grocery Co., Tacoma.
William C. Wright, First Bank & Trust Co., Utica.
Wm. H. Wrightson, Omaha Central Paper Co., Omaha.
L. W. Young, The Stanley Works, New Britain.
Mayo N. Zeigler, Robert W. Irvin Co., Grand Rapids.
C. O. Zimmerman, Graton & Knight Co., Worcester.
Miss Frieda W. Zwirn, Wittenberg Shimberg Corp., New York.

Nothing will be of more value to you than a close study of this

Five Year Analysis of General Motors Investments

BY JAMES E. PRESCOTT

DO the ratios used by credit executives in the examination of the financial factors of a credit risk have the same significance when applied to the analysis of securities?

Not so many years ago, the current ratio was the main test of credit soundness. Two for one, or two dollars or more of current assets for every dollar of current liabilities became the standard of measurement. But all too often a low current ratio was doctored to meet this test. Sometimes this was done by a funding operation, which, however, seldom reduced, but more frequently increased the total debt, and only deferred payment for the time being.

Gradually therefore, the use of other tests or ratios was adopted. Mr. Alexander Wall in his book "Ratio Analysis of Financial Statements", has made available the result of many years' experience in connection with the development of these ratios and their application.

The "price times earnings" ratio had the same importance for the security analyst that the current ratio had for the credit executive.

Some companies were more conservative in their accounting methods. Fixed Assets were being written off faster by using a greater percentage of depreciation, and patents, trademarks, goodwill, etc., were often charged off immediately, instead of over a period of years. This naturally affected the per share earnings considerably, and therefore, the price times earnings ratio of the more conservative companies was higher than others in the same line of business.

It therefore became necessary to examine more closely other items on the reports, and as a consequence other ratios were developed.

These various ratios reflect the policies of management, and when compared with a base composed of the average figures of the industry as a group, they will often show that the management of one company has hung up a record for others to shoot at, while for another they indicate the handwriting on the wall.

Here are the 100 per cent. statements of the GENERAL MOTORS CORPORATION for the past five years. Follow Mr. Prescott as he analyzes these figures and makes clear the underlying fundamentals of sound security values.

General Motors—100% Statements

	1925		1926		1927		1928		1929	
	Co.	Group	Co.	Group	Co.	Group	Co.	Group	Co.	Group
Cash	16.18	13.63	13.73	15.63	12.93	13.28	8.63	12.06	8.39	8.08
Receivables	4.74	5.65	4.86	6.92	4.67	6.12	4.58	5.72	4.11	11.00
Inventory	16.75	19.99	18.21	22.92	16.87	21.84	17.11	20.84	15.65	26.90
Listed Securities	5.50	4.44	2.05	3.92	7.42	9.78	10.16	8.87	2.18	6.09
Miscellaneous	0.	4.73	0.	.37	0.	.96	0.	.68	0.	.14
TOTAL CURRENT	43.17	48.44	38.85	49.76	41.89	51.98	40.48	48.17	30.33	52.21
TOTAL FIXED	56.83	51.56	61.15	50.24	58.11	48.02	59.52	51.83	69.67	47.79
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Payables	6.70	8.89	5.62	7.39	5.07	6.65	5.33	7.88	3.56	14.95
Taxes	2.08	4.45	3.54	4.21	3.44	3.69	2.89	2.69	2.38	1.42
Miscellaneous	7.51	3.66	7.67	6.17	7.06	5.72	6.84	6.23	3.83	1.35
TOTAL CURRENT	16.29	17.00	16.83	17.77	15.57	16.06	15.06	16.80	9.77	17.72
TOTAL NONCURRENT	.87		1.32		3.22		4.02		4.55	
FUNDED DEBT		5.96		1.54		.87		4.08		8.31
TOTAL DEBT	17.16	22.96	18.15	19.31	18.79	16.93	19.08	20.88	14.32	26.03
Reserves	13.69	10.90	14.44		13.86	3.14	14.16	2.99	16.12	.44
Net Worth	69.15	66.14	67.41	80.69	67.35	79.93	66.76	76.13	69.56	73.53
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Sales	109.73	139.34	123.35	135.60	124.04	145.09	127.03	151.50	124.92	162.71

Sometimes the credit manager and the security analyst will look at the same item differently.

Dividends are one item that occurs to the writer. They are looked at by the first, as a somewhat necessary expense of operation, similar to interest paid on a bond, and he is more interested in what percentage of earnings is left in the business. To the security analyst, dividends are one of the determining factors of investment. Is the dividend well covered? Is the management paying out only a conservative portion of earnings as dividends, and therefore, can the dividends be depended upon in bad as well as good times? These are some of the questions that the reports of the companies must be looked to for answers.

Let us now examine one of the well known companies, by the use of various ratios.

The company studied is General Motors Corporation, whose securities are listed on the New York Stock Exchange. The reports of the company are therefore available for public inspection.

Group Percentages

The group percentages of the auto manufacturing industry for the five years as well as the ratios for 1927, 1928, and 1929 were very kindly furnished by the Robert Morris Associates. These base figures cover 19 companies in 1925, 15 in 1926, 19 in 1927, 20 in 1928, and 18 in 1929, so that they represent the industry as a whole. The base figures of the Group are the average of the arithmetic figure, the median figure, and the mode density.

Ratios for 1925 and 1926, also the Merchandise-Receivables ratios for 1927 to 1929 not being available, they were worked out from the percentages given, and are shown in bold face. It was felt that these figures would be fairly representative and would give a more complete picture.

Common-Size Statements

In this 5 year analysis, the dollar statements have been converted to 100% or common-size statements, that is, each item has been reduced to a percentage of the total assets or liabilities. Treasury Stock has been deducted from Assets and the value of stock outstanding has been reduced accordingly. The items of Goodwill and Patents have been deducted from the Assets and also from the Net Worth. These statements, therefore, cover tangible items only.

General Motors—Ratios

	1925		1926		1927		1928		1929	
	Co.	Group	Co.	Group	Co.	Group	Co.	Group	Co.	Group
Current	265	**285**	231	**280**	269	385	269	340	310	350
Mdse. —Rec.	353	**354**	375	**331**	361	**357**	374	**364**	381	245
Worth—Fixed	122	**128**	110	**161**	116	165	112	155	100	155
" —Debt	403	**288**	371	**418**	358	475	350	400	486	400
Sales —Rec.	2315	**2466**	2538	**1960**	2656	2600	2774	2700	3039	2000
" —Mdse.	655	**697**	677	**592**	735	645	742	695	798	550
" —Fixed	193	**270**	202	**270**	213	300	213	295	179	325
" —Worth	159	**211**	183	**168**	184	170	190	175	180	185

Current Ratio

	Co.	Group	Relation of Co. to Group
1925	265	**285**	**93**
1926	231	**280**	**83**
1927	269	385	70
1928	269	340	79
1929	310	350	89

This ratio indicates the amount of current assets available to pay the current debt. In 1925, instead of being expressed in the usual manner of 2.65 to 1, it is shown as 265, indicating that there were $265 of current assets available, for every $100 of current liabilities. This had increased to $310 in 1929, but in every year, it is below the Group.

Its relation to the Group in the first year is 93%, and in the last year 89%.

Working Capital

	Co.	Group	Relation of Co. to Group
1925	26.88	**31.44**	**85**
1926	22.02	**31.99**	**69**
1927	26.32	**35.92**	**73**
1928	25.42	**31.37**	**81**
1929	20.56	**34.49**	**60**

The percentage of working capital shows how much of total assets are free for current operations, and is arrived at by deducting the percentages of current liabilities from current assets.

In 1925 the indication is that $26.88 in every $100 of Assets is working capital. This has decreased to $20.56 in 1929, the figures being below the group in every year.

The Acid Test

	Company Cash and Receivables	Company Current Liabilities
1925	20.92	16.29
1926	18.59	16.83
1927	17.60	15.57
1928	13.21	15.06
1929	12.50	9.77

	Group Cash and Receivables	Group Current Liabilities
1925	**19.28**	**17.00**
1926	**22.55**	**17.77**
1927	**19.40**	**16.06**
1928	**17.78**	**16.80**
1929	**19.08**	**17.72**

Ratios

	Co.	Group	Relation of Co. to Group
1925	128	**113**	**113**
1926	110	**127**	**87**
1927	113	**121**	**93**
1928	88	**106**	**83**
1929	128	**108**	**119**

The Inventory, as it appears on a statement, is usually a mixed item, consisting of raw materials, goods in process of manufacture, and completely finished goods. There is always a question as to the real liquidating value of this item, therefore the total of Cash and Receivables is measured against the current liabilities. This total should be equal to current liabilities to measure up to the test.

In 1925, there was $20.92 of Cash and Receivables for each $16.29 of current liabilities, or $128. for every $100. respectively. The Company fails to pass the test in 1928. The last year, however, shows considerable improvement over the group.

Merchandise to Receivables

	Co.	Group	Relation of Co. to Group
1925	353	**354**	**100**
1926	375	**331**	**113**
1927	361	**357**	**101**
1928	374	**364**	**103**
1929	381	**245**	**156**

There was $353. of Inventory in 1925 for every $100. of Receivables, whereas in 1929, there was only $100. for every $381. of Inventory.

In this connection, let us refer to the 100% Statements.

	Co. Receivables	Co. Inventory	Group Receivables	Group Inventory
1925	4.74	16.75	5.65	19.99
1926	4.86	18.21	6.92	22.92
1927	4.67	16.87	6.12	21.84
1928	4.58	17.11	5.72	20.84
1929	4.11	15.65	11.00	26.90

In view of the declining trend in business, in the latter half of 1929, the figures are particularly significant. The Company Inventory and Receivables in 1929 have been reduced to the lowest percentage of the entire period,

whereas the Group figures are the highest of the period.

It is very evident that the trend of business was sensed by the management and action taken accordingly.

The dollar figures for the last two years are also interesting.

	1928	1929	Decrease %
Receivables	$ 52,627,957.	$ 49,423,840.	6.09
Inventory	196,692,868.	188,472,999.	4.18

Not only was the Inventory reduced, but collections were more rapid.

In this connection, further reference is made under the heading of "Sales to Receivables".

Worth to Fixed Assets

	Co.	Group	Relation of Co. to Group
1925	122	128	95
1926	110	161	68
1927	116	165	70
1928	112	155	72
1929	100	155	65

As plant or other non-current assets should be financed primarily from owned capital by the ordinary business, the higher this ratio is the more liquid is the net worth.

The table below shows the Company's fixed assets to have increased from 56.83% in 1925 to 69.67% in 1929, whereas, the percentage of net worth which was 69.15 in 1925 is only 69.56 in 1929, being practically unchanged.

The Group fixed assets were 51% in 1025, and had decreased to 47% in 1929, but the net worth had increased from 66% in 1925 to 73% in 1929.

	Co.	Group
1925	56.83	51.56
1926	61.15	50.24
1927	58.11	48.02
1928	59.52	51.83
1929	69.67	47.79

The Company now has all of the net worth tied up in fixed assets. Is this increased investment justified by a proportional sales volume?

Let us examine the Sales to Fixed Assets Ratio given below:

Sales to Fixed Assets

	Co.	Group	Relation of Co. to Group
1925	193	270	71
1926	202	270	75
1927	213	300	71
1928	213	295	72
1929	179	325	55

In 1925, there were $193. of sales for every $100. of Fixed Assets. This had increased to $213. in 1928. In 1929, however, this decreased to $179., which is accounted for by the greatly increased percentage of fixed assets, as shown above.

The author of this penetrating study, an accountant by profession, has had such broad and varied experience that he is able to analyze a problem of this kind not only from the angle of the accountant but also from the angle of the financial expert. He has been connected with a railroad (in the accounting department from 1910-1917), with the Guaranty Trust Company, (Trust department, 1917-1919), with the Anglo-South American Bank (Bond and Security department, 1919-1921). Before his present association as accountant and statistician with a large and well-known investment house, he was connected with three other leading concerns in the same field.

In 1929, the percentage of fixed assets is the greatest of the entire period, whereas the Group percentage is the lowest.

Worth to Debt (Or Owned) to Borrowed Capital

	Co.	Group	Relation of Co. to Group
1925	403	288	140
1926	371	418	89
1927	358	475	75
1928	350	400	88
1929	486	400	122

The Company does not have a dollar of funded debt, the Non-Current debt consisting of Employees Investment Fund, Employees Saving Fund, and Employees Bonus. These items are payable over a period of years. They are included, however, in the total debt.

For every $100. of debt, the net worth was $403. in 1925, and had increased to $486. in 1929, being considerably ahead of the group.

Sales to Receivables

	Co.	Group	Relation of Co. to Group
1925	2315	2466	94
1926	2538	1960	129
1927	2656	2600	102
1928	2774	2700	103
1929	3039	2000	152

This ratio shows the proportion between the total yearly business, and Receivables which are uncollected sales.

When sales as compared to receivables are high, then collections are rapid.

Only in 1925 is the Company behind the Group, while in 1925, collections were much more rapid.

In the "Merchandise to Receivables" Ratio, we found that not only had Inventory been reduced, but that Receivables were being collected faster. The Sales to Receivables Ratio is a further substantiation of this.

Sales to Merchandise

	Co.	Group	Relation of Co. to Group
1925	655	697	94
1926	677	592	114
1927	735	645	114
1928	742	695	107
1929	798	550	145

This ratio gives a fair indication from year to year of the number of times that inventory is turned over.

Only in the first year is the Company behind the Group.

In 1925, the inventory was turned over 6.55 times in the year, or once every 56 days, whereas, in 1928, it was turned over every 49 days.

In the "Merchandise to Receivables" ratio, we found that the percentage of Inventory was the lowest of the entire period. Making due allowance for this, however, the Company is still more than one turnover ahead of the Group.

Sales to Worth

	Co.	Group	Relation of Co. to Group
1925	159	211	75
1926	183	168	109
1927	184	170	108
1928	190	175	109
1929	180	185	97

This shows the Sales activity of the Investment.

For the last 4 years, the Company compares very well with the group.

The ratios that follow are undoubtedly used by security analysts more than by credit executives.

Net Profit to Gross

1925	1926	1927	1928	1929
77.71	76.59	71.48	74.14	73.66

This gives the percentage of profit, after expenses, available for dividends.

As will be seen, it remains fairly constant.

Net Profit to Sales

1925	1926	1927	1928	1929
15.79	17.60	18.52	18.94	16.50

This ratio gives the percentage of net profit from sales, being the balance available for dividends.

The last year shows a smaller percentage of profit, and inasmuch as the

Company in 1929 had the greatest volume of sales in its existence, it reflects to some extent the greater competition as a result of declining business.

Net Profit to Net Worth

1925	1926	1927	1928	1929
25.06	32.21	34.11	36.03	29.64

The net return on invested capital is indicated by the above.

Net Profit Per Common Share

Based on	43,500,000	shares
Treasury Stock	1,707,455	"
Outstanding	41,792,545	"

1925	1926	1927	1928	1929
2.49	4.11	5.20	6.14	5.49
2.59	4.27	5.41	6.39	5.71

In this analysis, the Treasury Stock has been deducted from Assets and Net Worth, as such stock does not carry with it any proprietary interest or share in the business. The shares of Treasury Stock shown above were the number held in 1929. For the purpose of comparison with previous years therefore, the above number of outstanding shares is used in each year. The earnings are based on the earnings available for common stock after payment of dividends on the preferred.

Dividends Paid Per Common Share

1925	1926	1927	1928	1929
$1.48	$2.49	$3.23	$3.96	$3.75

Dividends, including extras, show a steady increase until 1929, that year being somewhat lower. This is also based on the outstanding stock shown above.

Percentage of Net Income Paid on Common Stock

1925	1926	1927	1928	1929
$57.	$58.	$60.	$62.	$66.

The percentage of dividends paid will indicate to a large extent the conservatism of the management. As stated previously, the security analyst will seek to determine if the dividend can be paid in bad as well as in good times. Naturally, if the dividend is maintained in bad times, it will show a greater percentage of earnings paid out.

Book Value

1925	1926	1927	1928	1929
$8.53	$11.15	$13.23	$15.07	$16.77

This also is based on 41,792,545 shares outstanding for the reason given under the heading of "Net Profit per Common Share".

It is evident from this, that the Company's Common Stock **does not** sell on its book value, but on its earning power.

Reserves

The Company Reserves consist entirely of Reserves for Depreciation. They have not been considered in any of the Company ratios involving net worth. Some analysts, however, consider them as part of Net Worth.

Looking at the subject from this angle, therefore, they are shown below as a matter of comparison.

	Co. Reserves	Co. Net Worth	Co. Total
1925	13.69	69.15	82.84
1926	14.44	67.41	81.85
1927	13.86	67.35	81.21
1928	14.16	66.76	80.92
1929	16.12	69.56	85.68
	Group Reserves	**Group Net Worth**	**Group Total**
1925	10.90	66.14	77.04
1926	0.	80.69	80.69
1927	3.14	79.93	81.07
1928	2.99	76.13	79.12
1929	.44	73.53	73.97

In every year the total for the Company is higher than the group.

Had the reserves been considered as part of net worth, they would have made a considerable difference in all ratios involving net worth. A comparison of the reserves shows the management of the Company to be much more conservative than the Group in their accounting policies. It is common practice for some companies to make their depreciation charges flexible, by excessive charges against operations in their more profitable years, and small charges in the leaner years. This practice, however, is frowned upon by the Treasury Department.

In 1929, the Company has the largest percentage of depreciation in keeping with the greater percentage of fixed assets. The Group, however, has the lowest of the period, evidently to show their stockholders a reasonable return in a year of declining business.

Price—Earnings

Prior to the "bull market" commencing in 1925, the most popular yardstick in estimating the value of common stock was considered to be approximately "ten times earnings". There was apparently very good reason for this measure. Usually, the average well managed company would pay out of earnings available for the common stock, up to 60% in dividends, and provided no more than ten times earnings had been paid, this would give a return up to 6% on the investment, which was not too much considering the degree of risk involved in any common stock investment. In the last two years of the bull market, this old fashioned measure "went by the board", and many stocks sold for more than thirty times earnings. However, since the break in the market in the latter part of 1929, many common stocks are now selling much nearer the basis of "10 times earnings".

Below are given the prices of this Company's Common stock at various periods of the year, for the 5 year period. The moving average is based on the average price of the average of high and low prices of each month.

The price times earnings table based on the per share profit of 41,792,545 shares, is also given below. (Price divided by profit per share, in the same year.)

The Index

In the index (table on next page), the net result of the individual movements of the most important ratios is reduced to one indicator or index number, so that the improvement or decline can be easily noted.

It has been assumed that the "Current" ratio and the "Worth to Debt" ratio have equal value in the analysis and a weight of 25% has been given to each of them, or 50% of the total value for both.

The "Worth to Fixed" ratio being estimated about 60%, as important as either of the above, a value of 15%

(*Continued on page* 38)

Prices of General Motors Common Stock

	1925	1926	1927	1928	1929
Moving Average	$12.14	$22.57	$44.24	$74.27	$70.18
Ave. of years high and low	14.29	22.60	42.78	70.95	62.63
Sept. 1st	11.80	28.03	49.63	81.20	72.20
Dec. 31st	15.66	30.75	55.20	81.50	40.50

Price Times Earnings

	1925	1926	1927	1928	1929
Moving Average	4.69	5.29	8.18	11.62	12.29
Ave. of years high and low	5.52	5.29	7.91	9.07	10.97
Sept. 1st	4.56	6.56	9.17	12.71	12.64
Dec. 31st	6.05	7.20	10.20	12.75	7.09

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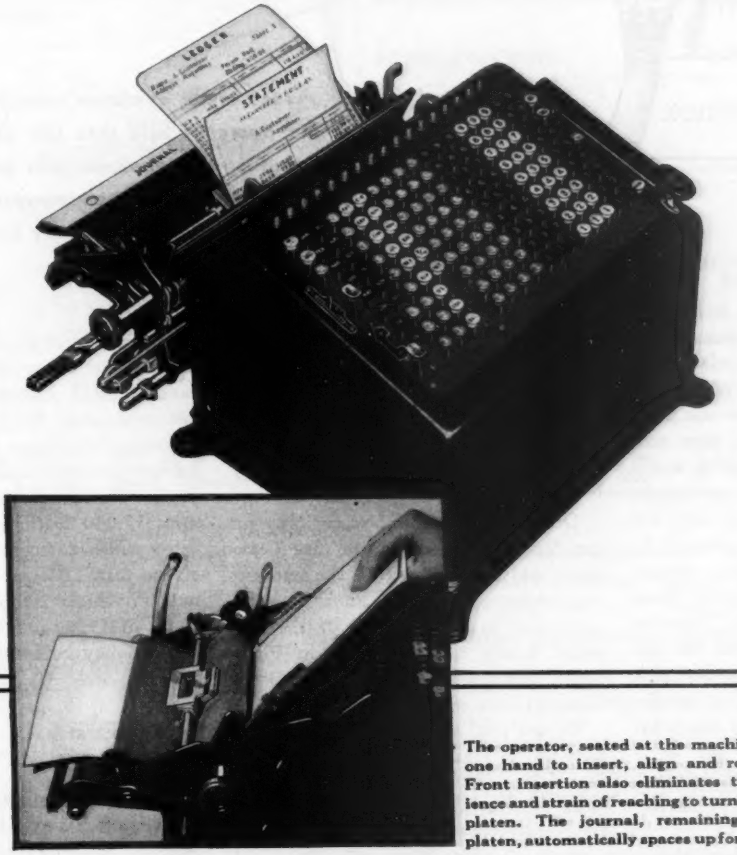

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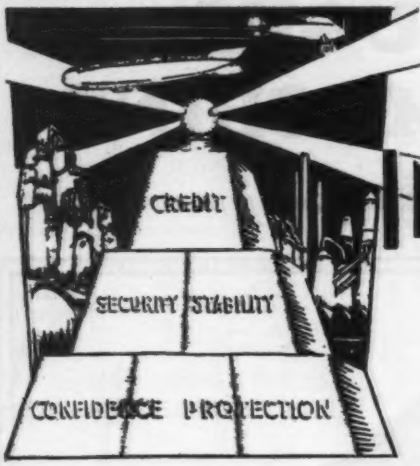

INSURANCE DIGEST

As the credit executive is in closer contact with the insurance field than any other business man, excepting the insurance man himself, the Insurance Digest has been inaugurated to fill the need of the credit fraternity for insurance news and information.

Insurance—The New Criterion of Credit Granting

An article in "Human Relations", publication of the Independence Companies, discusses the close relationship between credit and insurance.

Credit is the foundation of our modern business scheme. "If it were suddenly to break down, industry would be paralyzed as if a terrible earthquake or tornado had destroyed every crop and leveled every factory in the country."

Credit must be carefully administered. The three time-honored bases of credit-granting, Character, Capacity and Capital are still important but the credit grantor has learned that however adequate his client's capital is at the present moment and however clean his business reputation, yet any one of a number of unanticipated contingencies may arise in the near future to destroy his ability to pay.

How does the credit grantor protect himself against these unpredictable possibilities? By insurance—the great stabilizer of credit. If he is a banker to whom a farmer has applied for a mortgage loan on his property, he will ascertain if the farmer has adequate Fire, Tornado and Hailstorm Insurance. If a manufacturer applies for credit, the credit situation is more complicated and more intricate forms of insurance are needed. It has been estimated that every manufacturing plant needs twenty-five different coverages including Use & Occupancy, Profits, Riot and Civil Commotion, Workmen's Compensation, etc.

Today a non-policyholding buyer or borrower, notwithstanding his apparent Character, Capacity and Capital is suspect. The fact that a buyer carries no insurance or can get none or has had his insurance cancelled is always a red flag calling for very careful further investigation.

Accidental Death Toll Keeps Mounting!

Dr. Louis I. Dublin, statistician for the Metropolitan Life Insurance Company, and an authority on the statistics and causes of accidents took a prominent part in the activities of the National Safety Congress held in Pittsburgh during the first week in October.

He analyzed the ever-increasing accident toll in a talk in which he declared that what is needed at the moment is more information on where and under what conditions accidents occur.

He presented a thorough analysis of the contributing causes of the 97,000 deaths due to accidents in 1929, which he predicted would increase to 100,000 in 1930. He made the statement that accidents this year will account for more deaths in the United States than does tuberculosis, and that among males accidents are second in importance to heart disease as a cause of death and tuberculosis is seventh.

Dr. Dublin labelled the automobile death toll the ever-darkening spot on America's accident record. He said: "Reductions which have been made in fatal accidents in industry and in the home have been offset heavily by the rising tide of fatalities arising out of the use of motor vehicles on our streets and highways. The automobile has become so dominant a factor in accident mortality that last year it accounted for nearly one-third of the total fatal accidents. The automobile accident death-rate in 1929 increased more than 10 per cent. over the 1928 figure. Preliminary indications for 1930 show an increase of 4 per cent. for the current year. The prospect for 1930 is that some 33,000 deaths in automobile accidents will have occurred before the end of the year. It is not assuring that the motor vehicle fatality increase was 3,000 in 1929, and that for 1930 the increase may be another 2,000!"

Fighting Farm Fire Hazards

The Farm Fire hazard is greater this year than it has ever before been in this country, according to Wallace Rogers, chairman of the Agricultural Committee of the National Fire Waste Council. The general drought has created very dangerous conditions. Dried grass and vegetation take fire easily. Wooden structures are so dry that when a fire starts, it gets out of control very quickly. Normal rural fire losses amount to more than $100,000,000 a year, and reports indicate that this will be a year of abnormal losses. Extra precaution is needed to prevent destruction of thousands of farm buildings.

Mr. Rogers suggests the following precautionary measures:

1. Test and refill all fire extinguishers.
2. Use wet grain sacks for beating out grass fires.
3. Watch hay in barn carefully for evidence of heating.
4. Enforce non-smoking rules in and near farm buildings.

General Motors—Index

		1925		1926		1927		1928		1829	
	Wt.	Rel.	Value	Rel.	Value	Rel.	Value	Rel.	Value	Rel.	Value
Current	25	93	23.25	83	20.75	70	17.50	79	19.75	89	22.25
Mdse. —Rec.		100		113		101		103		156	
Worth—Fixed	15	95	14.25	68	10.20	70	10.50	72	10.80	65	9.75
" —Debt	25	140	35.	89	22.25	75	18.75	88	22.	122	30.50
Sales —Rec.	10	94	9.40	129	12.90	102	10.20	103	10.30	152	15.20
" —Mdse.	10	94	9.40	114	11.40	114	11.40	107	10.70	145	14.50
" —Fixed	10	71	7.10	75	7.50	71	7.10	72	7.20	55	5.50
" —Worth	5	75	3.75	109	5.45	108	5.40	109	5.45	97	4.85
	100		102.15		90.45		80.85		86.20		102.55

Analysis of General Motors

(*Continued from page* 34)

was given. A value of 10% each was assigned to the first three sales ratios, and 5% to the Sales-Worth.

The Merchandise-Receivables was not weighted because at different times in the business cycle, it is sometimes inverted. Had it been weighted in this instance it would have improved the trend of the Index considerably. It is interpretive, however, as a single proportion. In the last year the Index is higher than the Group. Other weights could be used according to the analyst's own ideas of the importance of each ratio.

Changing the weights used to develop the index number if varied within reason, will change the size of the index number, but not the general trend.

The "Current" ratio is lower than the Group in each year, as also is the "Working Capital".

The "Worth to Fixed Assets" ratio is also considerably lower than the Group, and it was found that the Company had all of its net worth tied up in fixed assets, which shows why the "Current Ratio" and "Working Capital" are so much lower than the Group.

Upon referring to the Company's reports, we find that the following income was reinvested in the business:

1925	$ 46,441,065.
1926	74,654,902.
1927	91,159,415.
1928	101,763,350.
1929	82,203,580.
	$396,222,312.

In 1929, total real estate, plants, and equipment increased $66,893,220. over 1928, and for 5 years, the total was $322,612,088.

In the last year, investments in subsidiary and affiliated companies not consolidated, increased $89,451,320., the details being shown to the right.

The "Sales to Fixed Assets" ratio, although lower than the Group, improved up to 1929, thereby justifying the increase of fixed assets. In 1929, however, due to the additional large increase in this item, the relation to the Group was only 55%.

With improvement in business, however, is it not reasonable to assume that the earnings from these additional investments will show up as an increase in the Sales-Fixed ratio, as in the previous four years?

The "Merchandise-Receivables" Ratio shows the foresight of the management in reducing these two items to the lowest percentage of the entire period, whereas the Group was the highest. This is also reflected in "Sales to Receivables".

Notwithstanding the decrease in Receivables, the "Acid Test" shows the Company to be much higher than the Group in 1929.

The "Worth to Debt" ratio indicated a position in 1929 considerably higher than the Group. The Company did not have a dollar of funded debt, and consequently owns entirely its fixed assets, whereas, the Group with fixed assets of 47.79% has funded debt of 8.31%, thereby showing that they were mortgaged up to 17.39% of their cost.

In the "Sales to Merchandise" ratio, the turnover of Inventory the last four years is shown to be considerably faster than the Group.

"Reserves" particularly are very significant, showing a conservative management.

The "Net Profit per Common Share" shows a steady increase each year to 1929, when the declining trend in business commenced, with increasing competition and lower profits.

Dividends have been paid on the Common Stock since 1917, the average percentage during the 5 year period being 60.6% of net income available, after dividends on the preferred stock.

At this time the Common Stock is selling at about $44. per share, which is 7.7 times earnings of 1929, and gives a yield of 6.82% on the investment, based on a $3.00 dividend. For the first 6 months of 1930, however, the earnings were $2.42 per common share (based on 41,792,545 shares for comparative purposes) which includes $.17 per share non-operating, non-recurring profit. During 1929, about 62% of the entire year's earnings were covered in the first six months. On this basis, it is doubtful if the 1930 earnings will be much more than $3.80 per share, further evidencing the decline in business.

Assuming this to be the case, the stock is selling for approximately 12 times estimated earnings of 1930.

It therefore, seems to be reasonably priced and is the type of stock that a business man can well include among his investments.

In June of this year, the $7. Preferred $6. Preferred, and $6. Debenture issues were exchanged for 1,875,366 shares of $5. Preferred stock, which is the only type of Preferred now outstanding. On this basis, the net tangible assets back of each share are as follows:

1925	1926	1927	1928	1929
$246.	$308.	$367.	$409.	$446.

The $5. dividend was earned the following number of times:

1925	1926	1927	1928	1929
12	19	25	29	26

It is unnecessary to comment further on these figures. The preferred stock is undoubtedly a very high grade investment.

Investments in Subsidiary and Affiliated Companies

	December 31, 1928	December 31, 1929
General Motors Acceptance Corpn.	$ 50,000,000.	$ 76,900,093.
Yellow Truck Coach Mfg. Co.	30,669,252.	30,669,265.
Ethyl Gasoline Corpn.	750,000.	750,000.
Vauxhall Motors, Ltd. (England)	6,219,181.	8,695,656.
Adam Opel A. G. (Germany) (80% Interest)	—	25,965,196.
Bendix Aviation Corpn. (25% ")	—	15,091,217.
Fokker Aircraft Corpn. of America (40% ")	—	7,782,342.
General Motors Radio Corpn. (51% ")	—	1,530,000.
" " Bldg Corpn.	7,695,777.	8,008,770.
Argonaut Realty Corpn.	8,298,277.	10,823,861.
Investment in Housing Facilities, etc.	14,186,636.	21,054,043.
	117,819,123.	207,270,443.

Julius Rosenwald

(*Continued from page* 10)

grandfather had circumstances favored him as they did me. Success and wealth are about eighty-five per cent. chance, luck and fortunate circumstances and fifteen per cent. ability and work. I think people who attain wealth and position often have a tendency to rate themselves too highly. There are thousands of men over the country today who have as much and more ability than I have yet many of them are probably out of work. There can be no doubt that in the majority of cases ability has not been the real test of success.

"Somehow wealth never figures prominently in my subconscious mind. My country estate, my city residence, the forty acres where the offices, factories and warehouses of the company are housed seldom are paramount in my thoughts or considerations. My philosophy of wealth has been developed over a long period of years and I have come to the firm conviction that I had very little to do with it. I did not start out with any idea of making myself a millionaire. That thought was far from my mind. I was interested in selling and merchandising—in commercial activities that were basic in satisfying the needs of people. Even now I react to the days when I was a salesman on the road. When I arrive in a strange city I have the impulse to check my grip, wash up in the station and start out to sell, thus utilizing as much of the business day as possible before settling in a hotel for the night.

"I was well past forty before any appreciable wealth came my way and when I gradually awakened to find myself in the millionaire class no one was more surprised than I. So you can understand why I sincerely believe that through no great and unusual effort and ability of my own did wealth and position come to me."

Like the pearl diver who must often open scores of shells before he finds a pearl I took another dive into the stream of his business activities and experiences hoping to find at least one shining pearl of success. "Mr. Rosenwald, didn't you early establish in your mind the importance of hard work and hasn't this philosophy been of great value to you?"

"Hard work is almost a fable", he answered. "There are far more failures who work hard than successes who work hard. And more men hard-work themselves into failure than hard-work themselves into success. I think it is better to say that I have worked consistently rather than hard. I have attended to business and fulfilled my duties but that is no more than millions of others have done. Hard work is commendable but needs something else with it before it can be called a factor of success."

"Your company is doing one hundred and sixty times more business today than when you came with it. Haven't particular efforts and plans of yours been responsible for this growth?"

"Particular efforts and plans of others have been more responsible for this growth than have personal contributions of my own. Any man who had happened to purchase an interest in the company as I did in 1895 would have grown with the company as I have. There are many who might have administered the affairs more ably and efficiently. No matter from what angle you look at my wealth and position you can come to no other conclusion than that which I have been emphasizing. People come into great wealth in three ways: by inheritance, by a combination of circumstances and conditions—or fate, if you wish to call it that, and through sheer ability and intensity of purpose. Fewer fortunes are made on the latter basis than any other, and even in these cases opportunity must play a significant role. We often hear the statement, 'People make their own opportunities'. This is an exception and by no means a rule. It is better to say that many people don't make the most of their opportunities." And so it is easy to understand why the Chicago banker said—"he refuses to credit Julius Rosenwald with any appreciable amount of Julius Rosenwald's success."

Upon investigation I found out many things that Mr. Rosenwald did not consider of enough importance to tell me. During the critical period of readjustment after the war Mr. Rosenwald risked a heavy personal loss to protect stockholders and the company. He returned to the Treasury of the company twenty-one million dollars of his personal holdings of Sears Roebuck stock. Through this generosity the crisis was met and the company able to readjust its finances without injury to its stockholders.

Back in 1916, directly as a result of Mr. Rosenwald's initiative and business

acumen, the company established the Employees' Savings and Profit Sharing Fund for the benefit of employees of ten years' standing. Many of the employees who received small salaries were able to establish substantial estates through this profit sharing plan. One girl who started as a fifteen dollar a week clerk eleven years ago has accumulated fifteen thousand dollars under this plan.

Many other incidents of this kind might be cited to give an indication of the methods of the man who refuses to credit himself with any great responsibility for becoming one of the world's wealthiest men. After talking with Mr. Rosenwald you feel that his fortune just grew as a coral reef grows —a natural process over which he had no great control. But I didn't believe it. Just as many people under-emphasize the element of luck, Mr. Rosenwald, I feel, over-estimates it. One of his close associates said to me:

"You may take a proposition to him that fills three or four typewritten pages. Apparently the matter is complicated. Within a remarkably short time he is at the heart of the matter, has shorn the proposition of all complexities and left a unit of simplicity that the mind can grasp and follow through in a practical manner." The more one examines Mr. Rosenwald's methods the more convinced one becomes that he is a master of logical thinking, clear interpretation and straightforward, unhampered action. Combine these rare qualities with an innate habit of thrift and conservation and the element of luck or fate, however this may be interpreted, and you have one of the world's richest men who is at the same time one of the most democratic and genial of human beings.

What does this master merchant think of the relative situation of wholesaler, retailer, mail order and chain store distribution? Will the wholesaler survive? Will the chain store eventually weaken the wholesaler-retailer system? I formulated this question into direct interrogation, which he answered as follows:

"As long as I can remember we have had with us "the competitive bugaboo" in our mercantile system. One system of distribution, so the talk runs, is going to drive out another system. Our economic organization cannot support both systems, adherents of one or the other argue. Half a century of experience and observations as a merchant convinces me that most of this talk is unfounded, unreasonable argument and sensationalism. Particularly do I remember some of our experiences. A good many years ago the mail order business, in the height of its development, was criticized as a great force that would bring ruin to independent merchants all over the country. Over a period of a few years excitement ran high. The mail order business was a monstrous octopus reaching out and strangling in its greedy arms the very existence of independent merchants and general stores throughout the country. In many towns demonstrations were staged against the mail order houses. The local merchants would offer so much, say twenty-five or thirty cents, for any of our catalogs that were turned over to them. When a large supply was thus accumulated the populace would gather to see a great bonfire of our catalogs and listen to denunciations and accusations against us. These cases were reported but we did nothing at all about it. I knew that these demonstrations were merely expressions of misinformed and misunderstanding people who did not appreciate the true economic significance of the growing mail order business. I was also certain that our business would have no deterrent effect on local merchants. In a few cases we were able to ascertain that in towns where our mail order business showed the greatest growth the local merchants were prospering in about the same ratio. I am not in a position to give an analysis of your specific questions but I can say that I believe most of the critical talk about new developments in the competitive mercantile field is without foundation. The independent merchant has always been with us. And as far as I can see there is no danger of his ever passing out of the picture. We have great faith in the future of direct to the consumer retailing. That is why we are establishing retail stores all over the country."

Another side of this many sided man is revealed in his philanthropies and his philosophy of philanthropy. As stated in the first part of this article Mr. Rosenwald's gifts to date, and the total amount on hand in the Julius Rosenwald Fund, is over fifty millions. Making money is a business for most people. Giving away money has become a business for Mr. Rosenwald. In order

(*Continued on page 53*)

Financial Statement-Policeman!

(*Continued from page* 13)

cash but more receivables in the process. The debtors to a company were liquidating its receivables, thereby turning them all into cash. From this accumulating cash any company was drawing to pay its own obligations.

At first these obligations soon to be paid and the rapidly maturing assets were called quick. The term probably was adopted to express the rapidly approaching pay day, both for creditor and debtor. More recently, analysts have generally used another word, "Current", making a sharp distinction between "Quick" and "Current". An asset may be quick and not be current. The quick and current value of an asset may be differing amounts. Current assets today are those that *in the ordinary course or run of business will, through that regular business process, turn into cash.* The ability to become cash quickly establishes the quick nature of an asset and nearly every asset has some quick value. Take, for example, the unearned part of any insurance premium paid for fire insurance. No ordinary course of business will turn this into cash and yet it could be cashed almost as readily as cash in a bank could be drawn. But the ordinary course of business demands the continuation of this protection and forbids its conversion into cash. Quick but not current is its character and this same rule applies to other assets. As to the quick element in all assets, it is easy to see. Even an old typewriter can generally be sold promptly for some cash. Old machinery has some immediate cash value, even if only as junk. Merchandise has both a quick and a current quality. Ordinary processes of sale and collection turn it into cash. Sacrifice sale of finished goods, junk sale of semi-finished goods and resale in the wholesale market of original package goods may turn merchandise into cash much more rapidly than the ordinary processes of business but at a lesser amount.

With the appreciation of the existence of variety in assets and liabilities came the first true conception of the importance of proportion in statement analysis. At first analysts computed the total for the current assets and the total for the current liabilities. From these two totals they developed a marginal figure expressing the excess of current assets above current liabilities, now so commonly called free working capital. At first this marginal figure was considered enough but soon the appreciation grew that the margin could be the same for two statements but the condition of soundness be quite different. The relation between, rather than the difference between, current assets and current liabilities became the test for strength. In an article such as this it is impossible to cover and explain all the variations of proportional tests for credit soundness evolved from this first acceptance of proportion. Those readers of this article who may wish to delve more deeply into these theories and examine more closely the actual application of these principles to real cases, are referred to the writer's book on "Ratio Analysis of Financial Statements" published by Harper and Brothers. Or the writer will be glad to take any question in their minds up with them by correspondence through the CREDIT MONTHLY, covering such questions by future articles.

And now for the policeman idea of the heading. The chief duty of the old type of credit man was to prevent loss by singling out good and safe customers, or to pay heed to a weakening condition in a formerly sound risk and "get out while the getting is good". Shylock seems to be the prototype of these earlier ones. The pound of flesh, represented in credit by the liquidating dividend of the insolvent, was the important thing. Little consideration was given to the life of the subject. Financial statements, once accepted as measures of soundness became almost the sole hurdle of the debtor. The statement showing signs of weakening became the starter's gun for the race of credit men to get their accounts closed. Credit now veered toward a too great reliance on figure fact analysis. Statements and their analyses became the policemen that were on guard over the credit condition of innumerable industries. The pendulum of the credit decision swung from an absolute reliance on the personal element to an almost absolute reliance on figures. Such a complete dehumanization in the analysis of the risk was probably as bad credit as the former hunch method.

Luckily, today we have a much better balance between the two methods as will be seen in the next article.

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Conducted by
Frank A. Fall, Litt. D.
Director of Education and Research
N. A. C. M.

THE BUSINESS LIBRARY

"8 H.B.R."

HARVARD BUSINESS REPORTS—VOL. 8. Harvard University Graduate School of Business Administration. McGraw-Hill Book Co., Inc., N. Y. 1930. 687 pp. $7.50.

The eighth volume in the Harvard business case-book series is devoted entirely to various aspects of the motion picture industry. All of the commentaries on the 66 cases presented are by Howard T. Lewis, professor of marketing, who acknowledges the co-operation of many men connected with the industry, and particularly the financial backing of Joseph P. Kennedy of the Pathe organization, without which the report could not have been published.

As in previously published volumes of the series, fictitious names have been used in some cases, but more than half of the 66 are presented under the actual name of the corporation or other enterprise concerned.

While credit problems are not stressed in these cases, there are two which deal with terms of sale. These are *Elder Film Corporation* (pp. 303-318) and *Boston Theaters* (pp. 561-571).

The Elder Film Corporation (fictitious name), producing and distributing motion pictures, wished to adopt a form of exhibitor contract which would bring about economies of distribution, secure an adequate market for its product, and protect its newly established sales policy. Under this policy, the company sold its pictures in groups of three, each picture being offered for sale as a unit, instead of selling them in large blocks as it heretofore had done. To attain the objectives sought, the company decided to offer, to selected exhibitors, a five-year franchise agreement, providing for either percentage or flat rental prices and giving the company prior dating preference for its pictures at all times.

The Boston Theaters case concerns the problem of distribution protection for exhibitors. It was the general practice in the motion picture industry for an exhibitor to secure from a distributor protection for the pictures purchased, in the form of an agreement by the distributor not to allow the picture to be shown in certain other theaters in that operating zone within a prescribed period of time. Since there was no uniformity in the length of time of such protection, a Boston theater manager proposed that the exchanges in the city standardize the amount of protection granted for each run of a picture. Exchange managers, however, declared this plan inpracticable, stating that, since protection was a bargaining factor between distributors and exhibitors, the larger theater chains with strong buying power would always be able to secure special protection, regardless of any local plan of uniformity.

In his commentary on the Elder case, Professor Lewis suggested the possibility that many exhibitors might hesitate to enter into the specific franchise agreement proposed, and particularly to abide by it for as long a period as five years. In commenting on the Boston Theaters case, Professor Lewis stressed the disadvantages of the managers of "second-run" cinemas, as compared with the managers of the larger houses, and the difficulty of dating in second runs until and unless the managers knew exactly how long a given picture would be shown in a prior-run theater.

THIS MONTH'S BUSINESS BOOK

PSYCHOLOGY IN MODERN BUSINESS. Harry Walker Hepner. Prentice-Hall, Inc., N. Y. 1930. 728 pp. $5.00.

"A psychologist" we used to be told, "is a man who tells you what you already know in a language that you cannot understand." This definition, Professor Hepner maintains, is no longer applicable. Psychology has parted company with philosophy and become a science in itself. It is no longer, as the word itself might indicate, the science of the soul. It is rather the study of human behavior, including all integrated activities of the whole organism, even birth and death.

Business psychology, as defined by the author, is the study of predicting and influencing human behavior in business. It is directed toward all the problems of business where human behavior can be predicted or influenced. As to what these problems are, specifically, Professor Hepner reports the results of an interesting survey. About 500 business men were asked to list the psychological problems which were most acute with them. As a result of this survey a list of 97 problems was tabulated and later the replies of 167 men were selected at random and tabulated to show the percentages of men who had each problem in the list.

Seventy-five per cent had the problem "Remembering names and faces of people." About 73% had "How to make employees enthusiastic and energetic;" 68.4% "How to obtain the maximum amount of work from employees;" 66.6% "Ability to forget business and enjoy yourself after working hours;" 62.4% "How to get employees to co-operate with each other;" 60% "How and when to praise an employee;" 58.8% "Selecting suitable men for promotion;" the same percentage for "When hiring, what questions should be asked?" and 58.2% for "How to turn down a salesman in such a way that he will respect your decision and call again, or not, as you wish."

Having thus indicated the general nature of the problems of business psychology, the author develops his thesis under six chief divisions: The Nature of the Mental Life; Predicting the Behavior of the Individual; Influencing the Behavior of the Individual; Predicting the Behavior of the Group; Influencing the Behavior of the Group; and Pychological Research in Business.

In regard to co-operation, the author says: "The credit man is just as essential as the salesman, and the sooner both realize this, the better will be the work and the success of both. The salesman should furnish the credit man with information about his customers which well enable the credit man to evaluate the risk." Substitute "help" for "enable" and the statement will be air-tight.

A Timely Revision

STOCK MOVEMENT AND SPECULATION. Frederic Drew Bond. D. Appleton and Co. N. Y. 1930. 211 pp. $2.50.

This is the second edition of a work which received a particularly hearty welcome when it first appeared in 1928. Since then we have been through the gloom of late 1929 and the first half of 1930. Mr. Bond goes into the causes of the current depression with a thoroughness which justifies the opinion expressed by Colonel Leonard P. Ayres of Cleveland that his book is "distinctly the best" that has been written on the subject.

The chief topics discussed are well indicated by the chapter headings, which are as follows:

Chapter	I	Stocks and Stock Prices
"	II	Why the Market Moves
"	III	The Trend and the Market Discount
"	IV	The Swings of the Market
"	V	The Banks and the Stock Market
"	VI	Corporate Control
"	VII	The Floating Supply
"	VIII	Market Control
"	IX	Professional Operations
"	X	Speculative Tactics
"	XI	The Psychology of Speculation
"	XII	The Old Market and the New

Mr. Bond knows his Wall Street intimately, and his comments are based on long experience and dependable judgment. What he has to say on averaging is particularly valuable, as is his point of view on successful imaginary trading.

The financial importance of the New York Stock Exchange has not, in Mr. Bond's opinion, grown to the extent which might be suggested by statistics of other business activities and of the population's increase in numbers and wealth. Yet the growth has been nearly two-fold since 1906. Moreover, if we press the apparent parallel of the market for 1924 onwards to the market of 1898 to 1902, the conclusion would seem to be that we are en-

tering a period where the speculative markets will exercise their functions on a scale immensely larger than on the average exhibited from 1906 to 1926. We seem, the author asserts, in for a revival, on a scale of magnitude very much larger indeed, of the great speculative years in the first decade of the century.

Mr. Bond's final word concerns the present-day function of the American stock market, especially as localized on the New York Stock Exchange. Its historic use in the distribution of American securities has not lessened in value, while it is now a necessity for the effectuation of American placements into foreign government issues, foreign industrial enterprises and foreign commercial business. Without its intermediation and listing, immense investment as well as semi-speculative funds would be withheld. The American stock market is a necessity for the maintenance and extension of American financial hegemony throughout the world.

"Dam Impersonal Insurance"

(*Continued from page 15*)

carriers, offering a saving of commissions to their members, without regard for what they will lose if they abandon the benefits of sound stock insurance and the services of the local agent.

The wealthiest of the church organizations has organized its own insurance company and is undertaking to write all of the $300,000,000 of its own property.

Constant attempts are being made to put the government into business, and insurance is chosen as the most likely subject. Many of the states have inaugurated state funds for workmen's compensation insurance, some of them monopolistic.

While Massachusetts remains alone with its monopolistic automobile liability law, similar bills are being introduced in all states, always carrying the threat of monopolistic state funds.

The pace of modern business has brought some strange and fantastic insurance schemes in its wake. Somebody has even proposed a pool of insurance companies to insure against stock market losses. Of course, during the past couple of years many a man, even as you and I, would have been mighty happy to have such insurance, yet such a scheme would take insurance out of the class of a major business, and relegate it to the field of the stock market itself, or the race track or any other place where the gods of chance hold sway.

Just now, unemployment insurance is in the air. Industry faces the pressure of the unemployment situation, and politicians make capital out of promises to vote for unemployment insurance, and thereby eliminate the bread-line from our great cities. The fact that this purely paternalistic proposition, whether it be under the name of unemployment insurance, old age insurance, the dole, or the general term of social insurance, has been an utter failure in other countries, in nowise discourages its enthusiasts here.

Under the dole system, Great Britain has spent out of her public funds approximately 500,000,000 pounds, crippling public construction and industrial expansion, and producing 1,500,000 unemployed. Germany has fared no better. In 1927, when its unemployment insurance law was enacted, its unemployed numbered approximately 400,000. Now they number approximately 3,000,000.

France created for herself an unemployment situation through passage of its old age insurance law. When the first payment was demanded, there was an immediate strike of more than 100,000 workers.

And yet, there are many politicians and humanitarians as well who would catapult our own country into a similar situation. If it comes it will come by reason of the lethargy of American business, because it is easier to sit back and say "let 'em try it", than to undertake systematic means of providing jobs for the jobless.

Today, men are hungry. Soon they will be starving and freezing. It is time for action. It is for American business men to take care that action is directed according to constructive business principles, and not through the means which, in the language of the president of the American Federation of Labor, "develops a paternalism that is demoralizing and destructive"; that "stifles ambition, destroys initiative and blights hope."

How do these things concern the credit man? They concern him in

countless ways, but I will confine myself to three of them.

First of all, they concern him because by the very nature of his own business, he wants to see all business continued on the basis which gives individual initiative a chance to develop and obtain its reward. Whenever government, federal, state or local, invades one class of business, all other classes are endangered. The entering wedge is the hardest to drive but once the rift is made, its widening becomes simple. If government assumes unto itself operation of the public utilities and the insurance business, no field is safe from invasion.

These two businesses, subject to most frequent attack today, have been built up through individual initiative and individual brain power. They are highly specialized. If governmental arrogance reaches the extent of undertaking to run such businesses, it takes no prophet to foretell that banking and industry will follow, and that our government will degenerate into a system of communism.

The second reason why these things concern the credit man has to do with fair play. The bank is concerned with invasion of its field by all sorts of fiduciary organizations. The American Bar Association is deeply concerned because the banks through their trust departments, are invading the legal field. The book stores see drug stores selling books at cut rate prices. The restaurant proprietors stand in their doorways and watch their patrons flock to the drug stores for their noon day lunches.

The retail merchant sees his customers patronizing mail order houses. The independent grocer sees the chain store take his trade away from him.

All down the line, there is a constant fight for every business to keep its own domain inviolate. It is just as important for the credit man in any line of business to keep before the public the undeniable fact that the firm which has a trained personnel familiar with the intricacies of any one line of business, can serve the public better than the novice who has nothing to offer except a cheaper price, as it is for the insurance agent.

Finally, we come to the instrument through which stock insurance is retailed, the local agent. There is a close interdependence between the local agent and the credit man. Both occupy important positions in the business world. On the credit man depends the financial security of his company. If he makes one mistake, the entire future of the firm he represents may be placed in jeopardy. The insurance agents of this country are entrusted by their companies to place at risk annually, hundreds of millions of dollars of their stockholders' monies. The credit man looks to his insurance agent to furnish him with adequate protection, at lowest cost commensurate with sound business. There the real agency service only begins. Once he has provided adequate coverage, the service he has to offer flows continuously for the benefit of his client.

When a new form of coverage is evolved, he must explain it. If inspection proves that elimination of certain hazards could reduce the rate, he must take steps towards bringing it about.

The acid test of insurance comes with a loss. Then it is that the credit man turns to the local agent, who, as representative of both client and company, must see that justice is done.

The modern insurance agent must be a combination expert on all insurance lines, a practical engineer, a trustworthy "guide, philosopher and friend." Essential as it is, actual salesmanship constitutes perhaps the least important of his functions.

If the credit man will stop and think for a moment what he would lose if the service of the local agent were denied

him, he will not hesitate to discourage any intimation that his firm undertake to become self-insurers; he will point out the inconsistencies of direct-to-the-consumer insurance; he will resist with all his might any paternalistic scheme through which his sole reliance in time of loss would be an unknown cooperative without local representation, or the intricate unwindings of governmental red tape.

If the credit man and the insurance agent are to establish a closer bond and work together to protect their common interests, the way is open through their respective trade associations.

On this point, I think the National Association of Credit Men and the National Association of Insurance Agents have been equally negligent, if not actually culpable.

Because the question of credits is of major importance to the well-conducted local agency, many of our members belong to their Credit Men's Associations, but they enter them simply as credit men themselves, and not as representatives of their agents' associations.

Through the means of good-will ambassadors, each to the meetings of the other, I believe the two organizations could advance their own interests, and render a service to American business for which it would be eternally grateful. The salmon in the tin is just as important to the credit man as it is to the local agent.

There are two rivers that must stem together—sound insurance and sound credits. "There is salmons in both."

Protect Your Records

(*Continued from page* 20)

values of the company just as surely as any of their physical equipment.

What are the hazards to which records are exposed? Just the same as the hazards to which any other physical property is exposed. Like merchandise, they are subject to exposure hazards, to fires within, and to the conflagration hazard which sweeps everything before it.

Basically, there are only three ways of protecting records, and all protective measures must take one or more of these three forms. The first is duplication: keeping copies of records in some point remote from the main files. The virtue of this lies in the small possibility of both places burning at the same time. It must be recognized, however, that should one set of records burn, the safeguard is absent until duplication is restored, and such restoration in some cases may be quite costly.

The second form of protection is to put the records in a heat resisting container, a vault or a safe, of such construction as to protect them against the exposure which might be expected from the environment under the worst possible conditions. The average person does not realize the amount of combustible material in even a modern fire resistive building. It is hard to believe, but it is a fact that in a typical building, wooden furniture, wooden trim, wooden wearing floors over the fire resistive floor, will, if analyzed, be found to represent enough lumber in an area 60' or 70' square to build a two story, six room, frame bungalow. And yet the layman will look at such a situation and say: "What is there to burn?"

The third method of protecting records is to eliminate the exposure. That is, to see that the surroundings are fully cleared of combustible material, so that there is nothing to burn but the records themselves. When even moderately well housed, there is little danger of the records themselves supporting a spreading fire. There is ample scientific data to support this statement.

Perhaps one of the most insidious dangers to record protection today is

misplaced confidence. The owner of a massive safe of ancient vintage regards it with the pride of possession. It is hard for him to realize that the safe will fail under exposure, not by heat penetration, through those massive walls, but by simple and fatal heat leakage through faultily designed door joints. The typical office building vault is of 4" tile, really only a room partition. Such a partition may be so weakened by fire exposure that the firemen must knock it down with his pike pole lest it fall upon him. The record owner usually is not a fire protection technician, and he likes to believe the best about what he has. But flames will have little respect for his opinion. Scientific tests and facts offer the only safe rule for guidance.

What then are we going to do about protecting our records?

First classify the records. Determine which are the most important. Ask yourself this question: "If I heard the fire bell ring now, which of my records would I carry out under my arm?" And don't wait until you hear the fire bell. Think about it now. You will find when you investigate that 90 per cent. of the value of your records reside in perhaps 10 per cent. of their volume. Safeguard these as the nerve center of your business.

Next you must determine (perhaps with competent advice) the severity of the exposure to which your records may be subjected under unfavorable conditions. With this data, it is possible to determine the calibre of protection which is required to afford safety. Sub-standard protective devices which give nothing but a false sense of security, are worse than useless.

Then do something about it. Protect those records so that their loss cannot injure, perhaps beyond recovery, the business in which you are most interested.

It is said that a sympathetic man weeps for the misfortunes of others, but a wise man also learns from them.

Bonds and Preferred Stocks

(*Continued from page* 21)

interest charges. Applying this method to the above statement it is seen that Company A earned its interest charges and preferred dividend 1.66 times as compared with 2.0 times for Company B. The preferred stock of the latter company may be considered from an earnings viewpoint to be a better investment than the stock of Company A.

This conclusion may be borne out further by assuming a theoretical decline of like amount in the earnings of both companies. A 50 per cent. decline in earnings would reduce the balance of earnings available for the preferred dividend of Company A to $100,000 or only one-half of the amount necessary to cover the preferred dividend requirements. In the case of Company B a 50 per cent. decline in earnings would result in a balance sufficient to cover the preferred dividend, thus indicating the superior position of the preferred stock of Company B.

The growth of public utility holding companies has been very marked in the last decade. With the consequent growth of this particular type of utility there are numerous issues of bonds and preferred stocks now outstanding in the hands of the investing public. Not only the average investor but many persons who have had specialized training in analytical work are, apparently, still unconversant with the generally accepted method of evaluating, at least from an earnings viewpoint, the senior securities of public utility holding companies. It is probably advisable at this point to determine the exact position of the bonds and preferred stock of a holding company in relation to the securities of the subsidiary companies. The following table may be helpful in illustrating in a concrete manner this relationship. The securities in this table are listed in the order of their priority as to claim upon the consolidated earnings of the system.

Subsidiary companies—	bonds
" "	preferred stocks
" "	common stock
Holding company —	bonds
" "	preferred stocks
" "	common stock

In the case of a preferred stock of a holding company there are, then, four different classes of securities which have a prior claim upon the consolidated earnings. Since a holding company's earnings are in the form of interest and dividends received on the securities which it owns and since, in most instances, the major portion of a holding company's investments is represented by common stock, it is apparent that unless the subsidiaries pay dividends on their own common stock, the holding company will not be able to pay the interest and dividends on its own securities.

The following hypothetical consolidated income account will serve to illustrate the most generally accepted method to follow in computing the number of times holding company

(*Continued on page* 49)

ANSWERS TO CREDIT QUESTIONS

Conducted by Walter C. Foster

Conditional Sales Act—New Jersey

Q. Can a Conditional Sales Contract used in Pennsylvania be used also in New Jersey. Also, may a private hospital in New Jersey be allowed to sign a Conditional Sales Contract and a series of notes?

A. New Jersey has a Conditional Sales Act which is in all its important particulars identical with the Pennsylvania statute. The form of Conditional Sales Contract which was submitted by the inquirer in our opinion contains a sufficient reservation of title, and if the contract is properly executed and filed as required by the New Jersey statute, it should constitute proper protection. The place of filing is the office of the County Clerk or where there is a Register of Deeds, in the office of the Register of Deeds in the county in which the goods are first kept for use by the buyer, after the sale. Contracts relating to fixtures are to be filed in the office of the County Clerk or Register of Deeds. Register of Deeds offices are located in Camden, Essex, Hudson, Passaic and Union Counties. No acknowledgment or witnesses are required.

Under the New Jersey law, the landlord has a lien for rent for a period of one year. Fee for filing the instrument is $1. The contract should be filed within ten days after making the sale. For further particulars with respect to the statute, see page 131 of the Credit Manual of Commercial Laws for 1930.

There is no reason why a New Jersey hospital or any other purchaser may not purchase goods under contract of conditional sale. Of course, if a hospital is a municipal corporation, that is owned and operated by a municipality, county or state, the authority of the public officers who execute the contract should be inquired into.

Bankruptcy

Q. A dealer in another State is bankrupt. Our account terminates in a credit balance in his favor. Is is permissable for another creditor in our State to attach that credit balance to satisfy his account?

A. The filing of a petition in bankruptcy is an injunction against interference with the bankrupt's assets by any person. If a creditor of the bankrupt were to attach a credit balance owing to the bankrupt by a third party, such creditor would be guilty of a contempt of court.

Cash Discount

Q. A buys a bill of goods from B for $100.00, terms 2% cash 10 days, invoice payable in 60 days net. At the end of 15 days, A remits his check to B, taking advantage of cash discount. He is late in taking his cash discount; whereas he should have remitted within 10 days, he does remit in 15 days. However, B keeps the check, deposits it to his account, and comes back at A for payment of cash discount erroneously deducted. Is B justified both in retaining the check and presenting a claim to A for the cash discount erroneously deducted?

A. A cash discount is a premium allowed for payment within a given number of days. Unless the invoice is paid within the cash discount period (in this case 10 days) the discount is not earned, even though the invoice it not payable for sixty days. Acceptance by the creditor of a check for the amount of the invoice, less the discount, received after the expiration of the discount period, does not operate as an accord and satisfaction unless there has been a dispute between the parties and the check is tendered in settlement of a controversy. The creditor may retain the check and hold the debtor liable for the amount of the discount illegally deducted.

As to Legal Advice

THE National Association of Credit Men supplies answers to credit questions and some of the answers, of general interest, are printed regularly in the Credit Monthly. Advice cannot be given, however, regarding legal rights and liabilities. Such advice should be obtained from an attorney to whom all the facts should be stated. When such inquiries are received, information is furnished only as to the general principles of law involved.

Co-operative Associations

Q. Are co-operative associations or corporations in the State of New York subject to the same disadvantages that exist in Pennsylvania with respect to power to purchase merchandise on credit?

A. No such disabilities exist in the State of New York and co-operative associations or corporations are responsible for their commitments exactly the same as other co-partnerships and corporations.

Liability of Stockholders of an Insolvent Corporation

Q. A concern in New York has an account against a debtor in California, which is a corporation, having made an assignment for the benefit of creditors. A check for 11% of the claim is received representing creditor's pro-rata share of the dividend. Can the stockholders of debtor corporation be held for the balance owing?

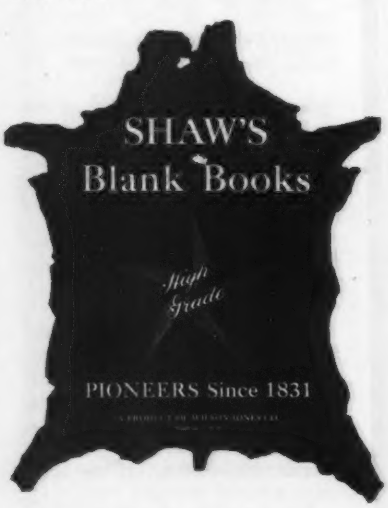
A. The acceptance of a dividend under an assignment for the benefit of creditors does not operate to discharge the balance of the debt unless the check is tendered and accepted in full settlement of account. There is a statutory liability imposed by the laws of California on the stockholders of an insolvent corporation.

IN THE MODERN OFFICE

An idea and experience exchange on equipment, system and management in the modern credit and business office.

Wilson-Jones Company Announces the New Shaw Blank Book Line

Upon September 1st, the Wilson-Jones Company announced to the trade and to business generally, its acquisition of the famous Shaw Blank Book Line, manufactured and distributed by the J. G. Shaw Company of New York since 1831.



Although the purchase of this old time company was made as far back as last May, no onnouncement had previously been made owing to the fact that the Wilson-Jones Company desired to add many features to the line, and while maintaining the same high quality which has always been the outstanding feature of Shaw's Blank Books, to broaden its range to include every popular item called for by blank book users.

A new catalog has been printed and is ready for distribution. Complete stocks have been placed in the three manufacturing and distributing plants of the Wilson-Jones Company at New York, Chicago and Kansas City and with this announcement the company is ready to give immediate service to dealers in every part of the country.

With their customary aggressiveness, Wilson-Jones Company announces at the same time a complete merchandising and advertising service for the use of their dealers in the retail sales of Shaw's Blank Books. Modern packaging, correct cataloging and the widespread uses of the trade design pictured herewith, are among the many features with which Wilson-Jones Company intends to round out a complete and unusual service in this new field.

Improved Mun-Kee Stamp Pad

The "improved" Mun-Kee Stamp Pad has a V- cut on its rubber flange to permit the user to insert the spout of the Mun-Kee Ink Can in re-inking the pad.

This stamp pad gives uniformly perfect impressions because of its scientific construction.

Little reservoirs under the top surface of the pad feed the ink to the top as becomes necessary, thereby eliminating blurred messy rubber stamp imprints.

Other features of the pad are a rubber base which prevents scratching of desk, and an inking surface which can be used on two sides and can then be replaced.

A satisfaction guarantee goes with every Mun-Kee Silent Stamp Pad.

The Romance of Ink

The Sanford Manufacturing Company gives us this story of the romance connected with the production of ink:

Few know that wasps, oak trees and iron mines have anything to do with the contents of their ink bottles, but without the wasp, the oak tree and the iron mines we could have no ink.

Far away on the shores of the Mediterranean among the groves of ancient oak trees which cover the hills, a wasp, resembling our native horsefly, lives and has lived generation after generation for thousands of years.

The female of this insect bores into the small branches of the oak trees, deposits her eggs within the wound and the oak tree walls off the egg of the wasp with a peculiar wart-like growth called a "Gall". These galls develop into globular growths about the size of an acorn, the larvae of the wasp develops within and eventually eats its way out and becomes a wasp.

Modern ink makers gather these galls, grind them, soak the powder in great vats and thus secure a solution of tannin, one of the basic fluids for the production of ink.

So modern ink makers go back to the ancient birth place of writing for the essential ingredients in modern writing fluids.

And now we must go deep down into the ground for another essential element in ink making.

We must drop down hundreds of feet into the iron mines of the world and from this iron secure a salt known as copperas.

Finally, if we mix the tannin distilled from the galls with the proper percentage of iron salts and water we will produce ink, but our solution would be practically useless as a writing fluid.

In the first place, a simple solution of Tannin, Iron Salts and Water will not adhere or cling to any pen point; in fact we could not write more than a few words at a time with such a fluid.

So away to India or Arabia we must go for Gum Arabic, a product of the Acacia tree, which, when mixed in proper proportion with our basic ink solution, gives the required viscosity, or in other words makes it possible to dip a little globule of fluid from the ink well which will adhere to the pen point and yet flow freely when the pen is placed in contact with the paper.

Unless we do this our ink will simply dry on the surface of the paper and could be wiped off with a wet cloth or lifted from the sheet with a damp blotter.

This of course would never do and so we must blend certain acids with our basic ink solution so as to set the words, figures or signatures we write permanently and indelibly into the paper.

Finally, we must take one more step before the contents of our ink bottle will be truly satisfactory.

Our solution of Tannin, Iron, Water, Gum Arabic and Acids will be practically colorless and we could scarcely see anything we might write with it.

Therefore coloring matter in the form of aniline dyes must be added and the most popular and pleasing color is blue.

With these facts before you, the manufacturing of ink may seem to be a very simple process but just as many other manufacturing processes seem to be simple, superiority in the manufacturing of ink can only come as the result of painstaking effort.

Bonds and Preferred Stocks

(*Continued from page 46*)

charges or preferred dividends have been earned.

Gross Revenues	$5,000,000
Operating Expenses (including depreciation)	3,000,000
Operating Income	2,000,000
Interest on Subsidiaries' bonds	500,000
Balance	1,500,000
Dividend on Subsidiaries' Pfd.	200,000
Balance	1,300,000
Interest on Holding Co. bonds	350,000
Balance	950,000
Dividend on Holding Co. Pfd.	200,000
Balance for Holding Co. Common	$ 750,000

One frequently hears the statement that interest charges (referring to the interest charges of the holding company bonds in the above income account) were earned 3.71 times ($1,300,000 divided by $350,000). Granted that the statement is true, it is, however, misleading because it ignores the charges which have a prior claim on the earnings of the system. The generally accepted method is to add to the interest charges of the holding company the interest charges and preferred dividends of the subsidiaries. In the above illustration these charges totalled $1,050,000. This amount is then divided into the amount available for interest on subsidiaries' bonds which was $2,000,000. The resultant figure would then be 1.90, which represents the number of times holding company bond interest and all prior charges have been earned.

The same procedure is followed in considering the margin of earnings over the preferred dividend requirements of the holding company. In the above case the holding company preferred dividend and all prior charges amounted to $1,250,000. The preferred dividend of the holding company and all prior charges were earned 1.60 times.

In analyzing the earnings position of railroads "the number of times fixed charges earned" should be used rather than "the number of times interest charges earned". Fixed charges in addition to interest charges consist of rentals paid for leased lines. Rentals for leased lines are as much of a contractual fixed charge from the viewpoint of the lessee as are interest charges. Failure to include rentals for leased lines in fixed charges may, sometimes, place a road with substantial rental charges in a more favorable earnings position than a road with no rentals for leased lines and thus distort the actual position of the two roads. Then again, the law of New York State governing the investing of savings banks' funds in railroad bonds, requires, among other things, that fixed charges be earned at least one and one-half times. The law defines fixed charges as including rentals paid for leased lines.

(*Continued on next page*)

One Month's Convictions

Fraud Prevention Department of the National Association of Credit Men

JULY, 1930

Case	Individual	Charge	Sentence
Phoenix Plush Co., Long Island City (Manufacturers)	Hertzberg, Samuel Arons, Isadore	Concealment of assets	30 days Suspended sentence
Abd El Nour, Inc., New York City, N. Y. (Linens)	Abelnour, Mitchell C. Abelnour, Metri C.	Concealment of assets	4 months and 5 years probation each
Creighton Negligees, Inc., New York City, N. Y. (Mfrs. Kimonos)	Jacob, Solomon Creighton, Frank	Conspiracy	1 year, 1 day 6 months
Federal Metal Spinning Co., New York City, N. Y. (Metal Business)	Levy, David Draznin, Joseph	Concealment of assets and conspiracy	2 years, probation 2 years, probation
Marguerite C. Wise, Baltimore, Md. (Ladies Ready-to-Wear)	Marguerite C. Wise	Concealment of assets	Suspended sentence of six months and placed on probation
Clark Bros. Cutlery Co., Kansas City, Mo.	R. A. Clark	Concealment of assets and violation of Postal Laws	Fined $2,500.00
T. B. Mahone, Los Angeles, California (Radios)	T. B. Mahone	Forgery	1 to 14 years, San Quentin Penitentiary

Total of 984 Convictions from June 1, 1925, to July 31, 1930

Addresses Wanted

BARKAY, HASSEN, formerly a restaurant owner, Akron, Ohio, believed to be located in Flint, Michigan.

BOECK, P., formerly of 3035 N. Laramie Avenue, Chicago, reported to be in either Hoboken or Newark, N. J.

CARMICHAL, MARIE, MRS., The Belmont Shop, 3153 Broadway, Chicago.

DAVIES, BON A., resided at 674 Homer Street, Palo Alto, California.

DUNNAWAY, H. L., formerly located at Valdosta, Ga. Understand has moved to Baton Rouge, La.

GENERAL VENDING MACHINE CORP., Arthur D. Jenkins, president; G. Williamson, secretary-treasurer (5579 Pershing Avenue, St. Louis, Mo. Coin vending machines).

GERSTENHABER, LOUIS, formerly in the stationery and cigar business at 327 Ditmars Avenue, Astoria, L. I.

HANSEN, C. N., Furniture salesman, last known address, 667 Delta Avenue, Cincinnati, Ohio.

HAYES, CHARLES T., tdg. as Charles Clothes Shop, Charlotte, N. C.

JOHNSON, KARL B., formerly of 3841 North Whipple Street, Chicago.

KIRBY, JOHN, formerly proprietor of the Giant Valley Riding School, Giant Valley Country Club, Mount Carmel, Conn. Last heard of in Brewster N. Y. Now believed to be in Vermont.

LONDO, J. L., formerly operating as Delco Light Sales & Service Company, Houston and Mercedes, Texas. Now thought to be in Dallas.

MARCH, HAROLD H., Plantsville, Conn.

MILLER, F. W., F. W. Miller's Midway Show, former address care The Billboard, Cincinnati, Ohio. Usually in New Orleans during the winter.

MOREHOUSE, F. A., last known address 1927 E. 9th Avenue, Spokane, Washington. Believed to be in Omak, Washington; Bellingham, Washington, and Everett, Washington; also Portland, Oregon, and San Francisco, Calif. Prior to coming to Spokane was located in Portland, Oregon, at 28 W. Portland Blvd. Makes a business of contracting, welding, usually in the erection of tanks or laying steel water mains.

OLD COLONY CLOCK COMPANY, Mr. Lloyd Freeman, President; Mr. H. B. Jacobs, Manager; a copartnership, operating as the Old Colony Clock Company, Middlebury, Indiana.

PASCAL, I., Pleasing Sound Phonograph Company, 15 W. 17th St., New York, N. Y.

PETERSON, WILLIAM F., Furniture salesman, last known address, East 4th Street, Jamestown, N. Y.

REDMAN, W. F., formerly of 11414 Homewood, Chicago.

ROULETTE, JEAN (MISS), formerly at 5108 Market St., conducted a hairdressing establishment and handled hosiery on the side. (Associated with Gladys Tepston).

SCOTT, LEWIS B., formerly in business at 17180 Kentucky, Detroit, Mich.

TARJAN, CHARLES H., operated a restaurant at 1141 Washington Street, Boston, in 1926. Subsequently was located at the Elks Club, Miami, Florida; last heard from at Coral Gables.

THOMAS, M., formerly Laurinburg, N. C.

TSAVALIS, MR., doing business as the Imperial Supply Company, last known address, 164 West 20th St., New York, N. Y.

WALKER, J. COLEMAN, Walker Office Service, 206½ Milan Street, Shreveport, Louisiana, now presumed to be located in St. Louis.

WORLD AMUSEMENT SUPPLY CO., formerly 1845 Broadway, near 60th Street, New York, N. Y.

Bonds and Preferred Stocks

(Continued from page 49)

The last type of company to be discussed from the viewpoint of analyzing the senior securities will be investment trusts. The income of investment trusts is derived from two principal sources. First, income received in the form of interest and dividends on securities owned, and, second, profits on the sale of securities. Given reasonably intelligent management, income from investments can normally be expected to fluctuate very little from year to year unless the capital of the trust is increased. This income, then, is of a recurring nature. In contrast, profits on the sale of securities are nonrecurring and consequently cannot be expected to appear in succeeding statements of the company.

A conservative policy well worth following in evaluating the senior securities of a trust would be to expect that investment income alone, after allowing for all expenses of operations, would be sufficient to cover the interest and dividends on the trust's senior securities. In this way the bonds and preferred stocks may be considered reasonably well protected as to earnings and the trust is not faced with the necessity of selling some of its investments, in which it may have a profit, in order to obtain sufficient funds with which to meet the charges on its senior securities.

Another income item appearing on the statement of some investment trusts is "stock dividends received". Some trusts follow the practice of taking stock dividends into their income account at market value rather than at the price at which the stock dividends have been capitalized on the books of the issuing corporation. Perhaps a specific example will help to crystallize the difference in the two methods. North American Company pays a quarterly dividend on its common stock at the rate of 10 per cent. annually. An investment trust holding 5,000 shares of North American common stock would receive, in the course of a year, 518 additional shares representing the stock dividend. If these 518 shares were taken up in the trust's income account at market value (at this writing North American common is quoted at about 100) the statement would show "Stock Dividends Received $51,800."

North American Company capitalizes its stock dividends at $10 a share, which means that for each share of stock issued as a stock dividend, $10 is transferred from surplus to capital account. If the investment trust were to take the stock dividend into its income account at the capitalized value the income account would then read "Stock Dividends Received $5,180," instead of $51,800, as was the case when the stock dividend was taken in at market value.

In this connection it is interesting to note that the New York Stock Exchange requires that investment trusts whose securities are listed on that Exchange write stock dividends into their income accounts at an amount not exceeding the price at which the stock dividends were capitalized by the issuing corporation.

In this article an attempt has been made to point out certain situations to consider in analyzing bonds and preferred stocks from an earnings viewpoint in the hope that the factors mentioned might be helpful to those charged with the duty of selecting or determining the relative merits of senior securities. The succeeding and last article of this series will deal with the analysis of common stocks as investments.

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salesman. G 1208 World Uptown.

Help Wanted

CREDIT EXECUTIVE'S ASSISTANT, LEGAL ADVISOR TO CREDIT EXECUTIVE, CAPABLE OF SOLVING HARDEST PROBLEMS IN COMMERCIAL LAW. MUST HAVE AT LEAST 15 YEARS' EXPERIENCE IN CREDIT AND LEGAL WORK. LAST MINUTE INFORMATION ON ALL LAW CHANGES A REQUISITE. MUST KEEP RECORD OF INTEREST, CORPORATION REPORT AND TAX DATES, COLLECTION FOLLOW-UPS, ETC., SALARY NO OBJECT. R 1 WORLD.

MAN, Swedish, age 35, college educ
speaks English, German, wishes to
with druggist or start at anythi
strom, 2225 Eastern boulevard
WEStchester 5257.

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APPLICATION FOR POSITION

I hereby apply for the position as your credit assistant and offer the following qualifications for your consideration:

EXPERIENCE--

33 years' legal and credit experience in the wholesale and retail fields. Since the credit executives first organized their professional Associations, I have become familiar with and solved practically every legal problem with which the modern credit executive is confronted. My experience is the accumulation of the best thought along legal and credit lines for over a quarter of a century.

EDUCATION--

My education thoroughly covers all Federal and State laws as they pertain to credits, collections and sales. I am particularly well trained in the obligations of creditors and debtors. Any credit executive for whom I work will, therefore, have available the most up-to-date knowledge of laws affecting credit. Do you know the many changes that have been made in Mechanic's Liens? What is your knowledge of recent significant changes in Conditional Sales Law? I might go on and give as examples scores of such questions that I shall be able to answer for you if you take advantage of my services.

REFERENCES--

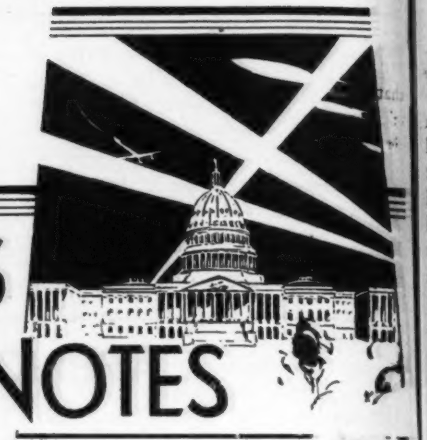
Thousands and thousands of business and credit executives have used my services for many years. Some of the largest corporations in this country have employed my services in all of their branches throughout the country. Any of these references furnished on request.

SALARY--

"No object." If you reserve my services before December 1st, then for a salary of only $3.50, I will assist you throughout 1931.

Signed: *1931 Credit Manual of Commercial Laws with Diary*

P. S. You may reach me by addressing the National Association of Credit Men, One Park Avenue, New York.



COURT DECISIONS AND WASHINGTON NOTES

INSOLVENCY OF BANK. LIABILITY OF STOCKHOLDER. (GA.).

Held that the liability of a stockholder of a bank to contribute pro rata to the restoration of an impairment of the capital stock is a different liability from that which may be enforced against him for the purpose of paying the depositors, upon the bank's failure and liquidation as an insolvent institution. Where after a payment upon the former liability the bank continues in business for a number of years and then fails, such payment will not relieve the stockholder from an assessment to pay those who were depositors at the time of the bank's failure. The court properly dismissed the affidavit of illegality filed by the defendant stockholder to the levy of an execution issued by the superintendent of banks in pursuance of such assessment. *Smith vs. Bennett.* Ct. of Appeals. Ga. Decided July 21, 1930.

* * *

INSOLVENCY. WRONGFUL PREFERENCE. SET-OFF. POSSESSION OF RECEIVER. (KANS.).

In an action by a receiver of an insolvent bank to recover judgment against one alleged to have wrongfully acquired assets of the defunct bank with knowledge of its insolvency, and thereby wrongfully and fraudulently gained a preference, *held* that the defendant is not entitled to plead or prove by way of set-off the amount of a balance on deposit at the time the bank became insolvent, nor is it proper to permit it to plead and prove by way of set-off the amount paid to the defunct bank for the assets alleged to have been so acquired. Further, a receiver is not liable in his official capacity for wrongfully taking and holding property not embraced in the order of his appointment. A cause of action based upon the wrongful taking and holding of the property of defendant by the plaintiff, a receiver, cannot be pleaded as a set-off to a cause of action sued upon by the receiver acting in his official capacity. *Johnson vs. Farm & Home Savings & Loan Association.* Supreme Ct. Kansas. Decided July 5, 1930.

* * *

DEFUNCT BANK. SUIT AGAINST STOCKHOLDER. SALE OF STOCK. VENUE. (TEXAS).

The State Banking Commissioner brought this suit in the District Court of Palo Pinto County, against Mrs. Mary N. Brown, a resident of that county, and W. H. Fuqua, a resident of Potter County, to recover an assessment of $1,000.00 levied by Banking Commissioner against the owner of ten certain shares of stock in the defunct Lockney State Bank. Sometime during the year 1922, Mrs. Brown purchased from the holder thereof the ten shares of stock involved in this controversy. The latter sold these shares to W. H. Fuqua, in October, 1923, and delivered to him the certificate. Fuqua still remains the holder of the certificate and real owner of said stock. No record of this transfer to Fuqua has ever been made on the bank's books. However, a few weeks after this transfer was made, the cashier of said bank acquired knowledge of the sale of the stock to Fuqua by Mrs. Brown. At the time the bank closed, the stock still stood in the name of Mrs. Brown, on the bank's books. *Held* that subject to certain exceptions, none of which is applicable to this case, the liability imposed on the stockholder by the statute attaches to the real owner of the stock and to one who, though not the real owner, holds himself out as such by allowing the stock to stand in his name, as owner, on the books of the bank. This liability may be enforced against both, jointly, or against either. Both Fuqua and Mrs. Brown are proper parties defendant to the suit of the Banking Commissioner to enforce the claim sued on. Both are shown by the averments of the plaintiff's petition, and the evidence introduced at the hearing of the plea of privilege, to be liable to the Banking Commissioner on the claim. It follows that suit on the claim was properly brought in Palo Pinto County, where one of said defendants resides. R. S. Art. 1995, Section 4. *Fuqua vs. Shaw.* Commission of Appeals. Texas. Decided June 25, 1930.

* * *

NEGOTIABLE INSTRUMENTS. ABSOLUTE GUARANTY. AGENT FOR COLLECTION. (N. J.).

In suit No. 1 on various notes the language of the endorsement is noteworthy—"For value received the undersigned hereby warrants payment of the within note." *Held* that there is no obligation to sue the maker before proceeding against the guarantor. There is an absolute guaranty of payment of the obligation, and there is no necessity to sue on the primary obligation as a condition precedent to the maintenance of the suit upon the guaranty. In suit No. 2 on the assignments of various accounts receivable, the assignor agrees to act as agent for collection and there is a guaranty that he will collect the amount due. Obviously, the assignee has a right of action for breach of the contract of collection, and he is not obliged to resort to a suit on the original obligation since there is a duty upon the assignor to collect. *Domestic Credit Corporation vs. Shapman & ano.* Supreme Ct. N. J. Decided July 2, 1930.

* * *

NEGOTIABLE INSTRUMENTS. MARRIED WOMAN. CONSIDERATION. (N.C.).

Where a husband and wife execute a purchase-money negotiable note for lands conveyed to him and secured by a mortgage, and suit against them is brought on the no[illegible] the feme covert may not set up [illegible] of want of considera[illegible]n moving to [illegible] give evidence to that effect in cor[illegible] of the negotiable instrument she has signed with her husband, her remedy being by suit to reform the instrument for mutual mistake or induced by fraud in order for the defense that she signed the note merely to convey her dower right to be available to her. *Taft vs. Covington et al.* Supreme Ct. N. C. Decided June 16, 1930.

WASHINGTON NOTES

Concentration of Manufacturing in the United States

Sixty per cent. of all the raw materials, fuel, supplies, and containers used by United States manufacturers is consumed in some four score small highly industrialized counties, says Edward R. Dewey, chief of the Industrial Goods Section, Census of Distribution, U. S. Bureau of the Census. These counties altogether cover less than 1 per cent. of the land area of continental United States. Put altogether these counties are so much smaller than the two large Arizona counties of Coconino and Mohave that there would be room left over for the State of Delaware, so much smaller than the large Nevada counties of Elko and Nye that there would be room left over for Connecticut and half of Rhode Island to boot,—only one one-hundredth of the county, yet making nearly sixty per cent. of all the strictly industrial purchases! It hardly seems believable, but it is so.

The significance of this statement lies in this, that by covering thoroughly an area less than half the size of Oklahoma, the salesmen of those concerns selling to manufacturers can get sixty per cent. of the possible business.

The consumption of material (raw material, semi-finished material, parts for assembly, fuel, supplies and containers) per square mile is, in the more industrial counties, enormous. Manufacturing plants in each square mile of New York County (Manhattan Borough) buy, on the average, over $84,000,000 of materials a year.

There are 19 counties that use yearly over a million dollars' worth of materials per square mile; and 19 more that consume from one-half to one million dollars' worth annually. Verily, we live in a country of concentration!

Julius Rosenwald

(*Continued from page* 40)

... he might make his bequests in a scientific manner and in a way that met his approval Mr. Rosenwald endowed a fund known as the Julius Rosenwald Fund. And through this organization he spends each year approximately fifty thousand dollars in order to give away money as he thinks it should be given. His ideas on philanthropy are quite striking and unusual. In the most emphatic manner that he used during our interview he said:

"Professional giving is not the opposite of professional begging. Many people make this mistaken contrast. They think of the millionaire handing out money with one hand—the poor, unfortunate or begging taking it with the other hand. I am opposed to this kind of giving but I am in favor of organized foundations operating to transact sound, large scale benevolence. There is one principle of large scale philanthropy that I also disagree with: that is the principle of perpetuity endowment. I do not believe in storing up large sums of money for use in generations or centuries to come. Such a program implies two things: lack of faith in the future and the placing of fortunes that are made today at the disposal of generations that will live long after our time. I feel that future problems can and should be met by future generations. For this reason I think that philanthropic enterprises should end at the close of the philanthropist's life, or at most a generation after his death.

"The history of philanthropy is full of cases showing that while current charity tends to do good perpetual charities tend to do evil. Conditions change so rapidly that what may be sound, well deserved philanthropy today will be useless and shameful in the future. A striking example of how time and progress may bring about such a situation is revealed in the will of a Byron Mullanphy. In St. Louis, which in 1851 was the gateway to California, Mr. Mullanphy established a fund to assist worthy travelers, who were stranded in that city, to make their way on west to build new homes and new cities. He did not realize that the day would not be far distant when this need would exist no more. Although the endowment was a modest one, it amounts today to one million dollars. In St. Louis there are many people who need assistance as much or more than did these travelers in 1851. By the law governing such matters, this money can be used in no other way than that prescribed by the will.

"Another case: a Pennsylvania manufacturer recently established a trust fund of sixty million dollars, to be further increased by profits from his business, for a home and school for orphan boys. Apparently, this seems a very laudable act. But what this man has done is to lock the largest portion of his fortune in a vault that can never be opened. In his own state there are orphanages that for years have not had enough boys to show a low per capita cost of operation. In nearby Baltimore is an endowed institution for orphans that has never had an inmate.

"John Edgar Thomson, once President of the Pennsylvania Railroad gave a fund of two millions for daughters of railway workers killed in the performance of their duties. Modern railroad progress and safety development have made the purpose of this fund virtually obsolete. It took an extensive advertising campaign to get twelve girls who came under the provisions of this bequest.

"These examples might be multiplied many times. They all serve to bear out my contention that perpetuity endowments are unfair, uneconomic and unethical. The generation which has helped to make a millionaire should be the one to profit by his philanthropy. There are enough contemporary needs to be cared for—no one needs to send his fortune worrying out into the future. The obligations of philanthropy are not yesterday or tomorrow. They are today—and should be met today."

All of Mr. Rosenwald's gifts conform to his ideas of philanthropy. At the present time approximately five thousand Rosenwald schools for negroes are in operation in fourteen southern states. More than nineteen million dollars have been spent for these schools, of which over four million has been raised by the colored people themselves, eleven million from public funds, one million from interested whites and approximately three and one half million has been contributed by Mr. Rosenwald. It is one of Mr. Rosenwald's principles that he will supply money to start and help a worthy cause provided it is worthy enough to bring help and contributions from other sources. He has made another single gift of three million dollars to an industrial, historical and educational museum in Chicago. He has given five million dollars for the settling of Jews on land in Russia, but the sponsors must raise an additional five million and ten million dollars must be contributed by the Russian government.

Like all outstanding pioneers who have begun their businesses in a past generation Mr. Rosenwald possesses one of the greatest qualities necessary to a long life of unending progress and development. — *p e r p etual modernness.* Times change but the versatile and outstanding man changes with the times. He is always one of the leaders of the procession. Men who have been successful contemporaries pass out of the picture because they haven't possessed that intrinsic quality of *perpetual modernness.* These men not only change with the times—they often change the times. Julius Rosenwald has been one of the leaders in merchandising, business management, the making of money and now the giving of money.

"I sincerely believe we make a great mistake in attributing qualities of greatness to a man merely because he has made a million or more", he told me. "Millionaires have too long been clothed with an illusion of romance and a genius for making money. Luck has made more men rich than genius ever has. Most of us stumble on to our wealth and by the same kind of luck hold on to it and make it grow. I don't say this to belittle positive qualities that enable a man to become wealthy but to discredit the halo of greatness and genius the world throws above the heads of most millionaires.

"I early learned the value of money and have always insisted on getting my money's worth whether the dollar was spent for wages, necessities, luxuries or philanthropy. The great crime that most people commit against money is in not getting the full value that the money represents. Money is injurious when it warps a person's sense of proportions, as it so often does. Work to me has always been a privilege—not a burden. And I have every intention that my wealth shall remain in the same category. As many people accumulate wealth they find it a burden. And so has developed what is commonly known as the 'curse of riches'. Although this is recognized the millionaire is looked upon as a great man. He may be—but being a millionaire does not make him great. Ranking along with the burden of wealth is the burden of futilities, that cluttering of life with futile objectives and desires that generally can never be realized. It is the determination of values, the making of life's discounts and the way of men with their money that give us both mediocrity and greatness."

Business Life Insurance

(*Continued from page* 23)

a year. What a man receives in compensation is an attempt on the part of his company to appraise his value to the business. In the case of a man having a large proprietary interest in a company, some consideration should be given to this fact because his salary may be nominal and by no means a true appraisal of his business value. If we may accept his total compensation as a reflection of his business life value, let us attempt to arrive at his total value to the business by projecting this earning capacity into the future, basing our projection on his present age.

In underwriting the life value of an individual, we will allow a man insurance according to the following table.

AGE	AMOUNT OF INSURANCE
40	Nine times annual earnings
50	Six times annual earnings
60	Three times annual earnings

By interpolating the intermediate ages the corresponding capacities for coverage can be determined.

The above schedule is suggested as a minimum program and probably would need to be modified to meet unusual situations. It is a generalization and hence subject to the usual faults of general statements. It conforms, however, in practice to the theory of business life insurance in that it prescribes a coverage that will reflect as nearly as possible the actual life value of the person insured.

With this information in his possession the Credit Manager is in a position to determine:

1. Whether the management element on which he bases his present credit rating is adequately protected.

2. Whether the surviving members of the firm will be in a favorable position to continue the business.

3. Whether an emergency fund exists to enable the concern to weather any adverse business conditions without requiring excessive credit expansion.

4. Whether sufficient insurance is carried to meet quick liabilities in the event it is deemed advisable to limit future credit.

With such an appraisal of business life insurance in his possession, the credit manager will be in a position to base his credit rating on known facts as they exist, having safeguarded himself and his concern against catastrophic changes in the condition of his customer.

Sales and Collections Survey

(*Continued from page* 28)

Some lines are approaching a "Good" classification in both collections and sales.

NEW YORK: Collections and sales throughout New York State are rated "Fair", and the outlook is much brighter, as conditions are gradually improving.

PENNSYLVANIA: There is some improvement (mostly seasonal) in both collections and sales, but not quite so good as seems to have been anticipated. The employment situation is improving but it has not as yet affected business.

TEXAS: A report from one section of Texas states that collections are by far better than for August and September of 1929. However a report from Ft. Worth states that sales and collections will not show much improvement until the cotton crop begins to move, which should be within the next two or three weeks. October is considered the month in which obligations are liquidated in this section but there are a lot of debtors who will be forced to ask their creditors, at least the larger ones, to carry them over for another season.

WASHINGTON: Sales show some improvement and confidence seems to be returning, although buying is still very conservative.

WEST VIRGINIA: Collections and sales in West Virginia are rated "Slow" with very little improvement over last month's report.

WISCONSIN: Both collections and sales are "Slow" to "Fair", although collections seem a little better than previous months.

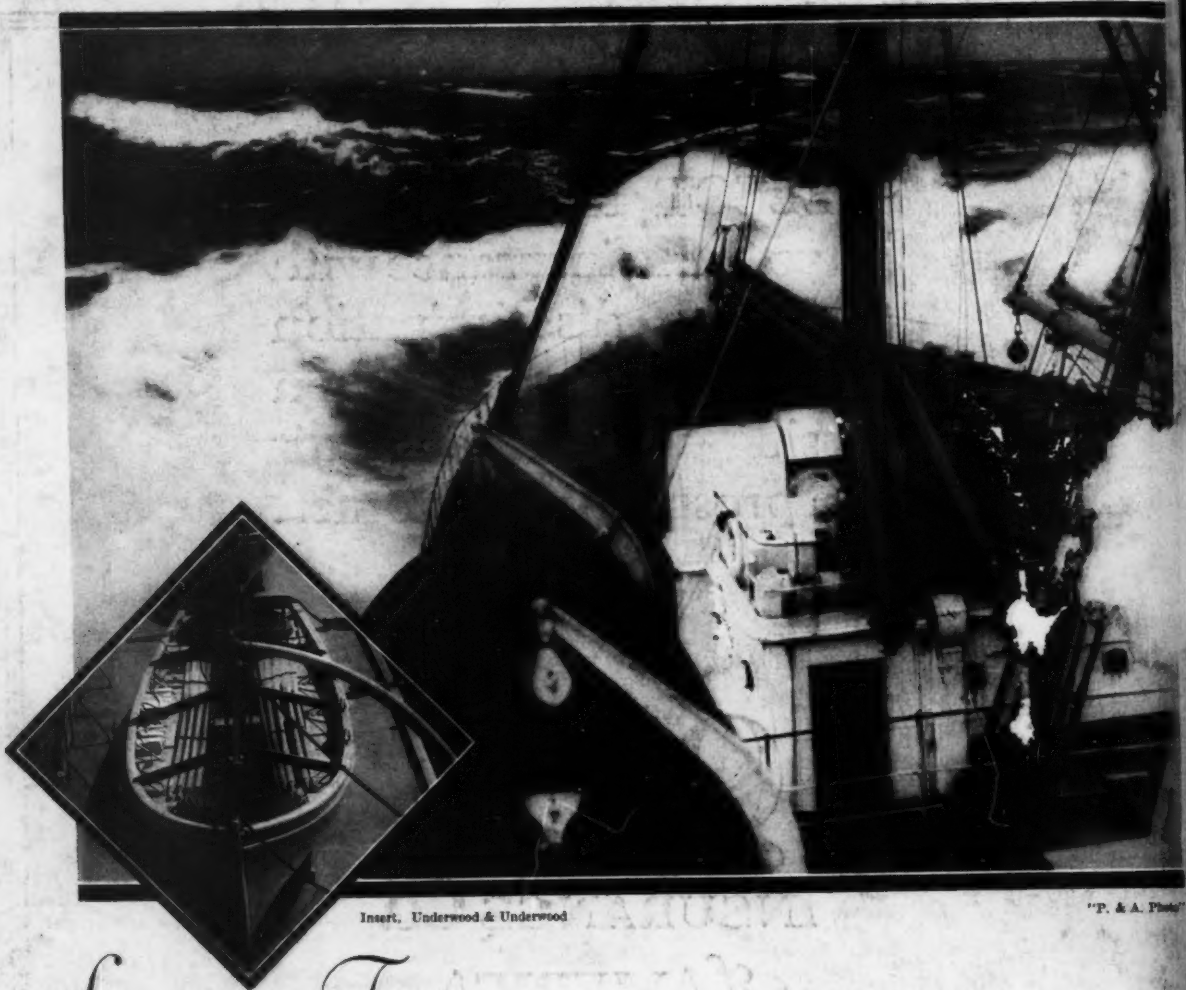
N. A. C. M.
Certified Financial Statements

AS the certified financial statements of the National Association have not been published, the purpose of this article is to advise our members that our auditors, Pace, Gore & McLaren, have finished their audit of the Association's books and have supplied us with certified statements which are on file at the Executive Offices of the National Association of Credit Men, One Park Avenue, New York City.

This Month's Cover

THE picture on the cover this month showing the Terminal Tower Building in Cleveland, Ohio is a symbol of a great civic achievement. The Terminal Tower Building forms a part of the recently completed Terminal Center, located at the Public Square and covering 35 acres. The focal point of this Center is the Union Station, a terminal of the New York Central, Nickel Plate and Big Four Railroads. Above the station and linked to it by passages and stairways are the companion terminal buildings: the Hotel Cleveland, the 18-story Medical Arts Building, 18-story Builders' Exchange Building, 18-story Midland Bank Building and the 52-story Terminal Tower. The beautiful modern structures are all the more striking in as much as they replace ramshackle buildings, formerly located on the Public Square.

The new Terminal Center keeps pace with Cleveland's industrial development. Cleveland is one of the principle iron and steel working points in the United States and its Lake Erie port receives the heaviest shipments of ore of any port in the world. The output of automobiles in the Cleveland and Toledo districts is second only to that of Detroit, and production is limited for the most part to medium and high grade cars. Cleveland ranks fifth in population among the cities of the United States.



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